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BPI/MS Insurance Corporation

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

pwc

Isla Lipana & Co.

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
BPI/MS Insurance Corporation
11th, 14th, 16th, and 18th Floors, BPI-Philam Life Makati
6811 Ayala Avenue
Makati City

Report on the Audits of the Financial Statements

Our Opinion

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

What we have audited

The financial statements of the Company comprise:

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Isla Lipana & Co.

Report on the Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

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

Makati City
March 2, 2021

BPI/MS Insurance Corporation

Statements of Financial Position
December 31, 2020 and 2019
(In thousands of Philippine Peso)

	Notes	2020	2019
ASSETS			
CASH AND CASH EQUIVALENTS	2	1,181,518	1,178,729
INSURANCE RECEIVABLE, net	3	2,465,046	2,525,497
REINSURANCE RECOVERABLE ON UNPAID LOSSES	4	3,057,246	2,471,449
DEFERRED REINSURANCE PREMIUM	4	1,797,819	1,929,879
DEFERRED ACQUISITION COST, net		61,561	81,071
AVAILABLE-FOR-SALE FINANCIAL ASSETS	6	5,467,874	4,734,083
HELD-TO-MATURITY FINANCIAL ASSETS	5	440,866	457,823
OTHER RECEIVABLES, net	7	100,114	42,051
ACCRUED INVESTMENT INCOME	8	29,522	40,502
PROPERTY AND EQUIPMENT, net	9	142,241	173,774
SOFTWARE COSTS, net	10	21,100	7,279
DEFERRED INCOME TAX, net	17	354,113	307,185
OTHER ASSETS, net	11	51,471	52,075
Total assets		**15,170,491**	**14,001,397**
LIABILITIES AND EQUITY			
RESERVE FOR OUTSTANDING LOSSES	4,15	4,219,205	3,455,650
RESERVE FOR UNEARNED PREMIUMS	4	3,503,183	3,719,548
DUE TO REINSURERS AND CEDING COMPANIES	4	1,796,941	1,930,846
FUNDS HELD FOR REINSURERS	4	297,964	324,669
ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES	12	1,186,847	1,011,892
INCOME TAX PAYABLE		-	7,107
Total liabilities		**11,004,140**	**10,449,712**
SHARE CAPITAL	18	350,000	350,000
SHARE PREMIUM	18	425,972	425,972
RETAINED EARNINGS	18	3,489,663	2,988,779
ACCUMULATED OTHER COMPREHENSIVE LOSS	18	(99,430)	(213,212)
STOCK OPTIONS RESERVE		146	146
Total equity		**4,166,351**	**3,551,685**
Total liabilities and equity		**15,170,491**	**14,001,397**

(The notes on pages 1 to 57 are integral part of these financial statements.)

BPI/MS Insurance Corporation

Statements of Income
For the years ended December 31, 2020 and 2019
(In thousands of Philippine Peso)

	Notes	2020	2019
UNDERWRITING INCOME			
Premiums written, net		5,830,486	6,117,327
Reinsurance premiums		(3,009,578)	(3,045,232)
Net premiums retained		2,820,908	3,072,095
Decrease (increase) in reserve for unearned premiums, net		84,304	(32,574)
Premiums earned		2,905,212	3,039,521
Reinsurance commissions		394,845	459,843
Total underwriting income		**3,300,057**	**3,499,364**
UNDERWRITING EXPENSES			
Losses and claims, net of reinsurance		1,179,454	1,374,903
Commission expense		879,260	938,050
Total underwriting expenses		**2,058,714**	**2,312,953**
NET UNDERWRITING INCOME		**1,241,343**	**1,186,411**
GENERAL AND ADMINISTRATIVE EXPENSES			
Staff costs	13	437,127	413,418
Occupancy and equipment-related expenses	9,10,21	170,654	179,396
Professional fees		49,426	81,767
Provision for impairment losses	3	42,335	9,893
Communication and postage		27,899	37,090
Printing and supplies		20,471	22,715
Interest expense	4,21	9,807	14,277
Taxes and licenses		8,939	9,585
Training and development		7,693	7,283
Advertising and promotion		5,479	7,048
Entertainment		2,539	6,492
Travel and transportation		2,060	7,821
Association dues		909	1,009
Others		28,621	13,779
Total general and administrative expenses		**813,959**	**811,573**
OPERATING INCOME		**427,384**	**374,838**
INVESTMENT AND OTHER INCOME			
Interest income	16	199,435	217,791
Gain on sale of investments, net	6	58,126	15,288
Dividend income	6	14,808	18,838
Other (expense) income, net	16	(15,835)	32,430
Net investment and other income		**256,534**	**284,347**
INCOME BEFORE INCOME TAX		**683,918**	**659,185**
PROVISION FOR INCOME TAX	17	183,034	176,799
NET INCOME FOR THE YEAR		**500,884**	**482,386**

(The notes on pages 1 to 57 are integral part of these financial statements.)

BPI/MS Insurance Corporation

Statements of Total Comprehensive Income
For the years ended December 31, 2020 and 2019
(In thousands of Philippine Peso)

	Notes	2020	2019
NET INCOME FOR THE YEAR		**500,884**	**482,386**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be subsequently reclassified to profit or loss	6,18		
Changes in fair value of available-for-sale financial assets		192,893	358,146
Fair value losses transferred to profit or loss		(58,126)	(15,288)
Item that will not be reclassified to profit or loss			
Remeasurement losses on defined benefit plan, net of tax effect	14,18	(20,985)	(5,912)
Other comprehensive income, net of tax effect		**113,782**	**336,946**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**614,666**	**819,332**

(The notes on pages 1 to 57 are integral part of these financial statements.)

BPI/MS Insurance Corporation

Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(In thousands of Philippine Peso)

	Share capital (Note 18)	Share premium (Note 18)	Retained earnings (Note 18)	Accumulated other comprehensive loss (Note 18)	Stock options reserve	Total equity
BALANCES AT JANUARY 1, 2019	**350,000**	**425,972**	**2,506,393**	**(550,158)**	**146**	**2,732,353**
COMPREHENSIVE INCOME						
Net income for the year	-	-	482,386	-	-	482,386
Other comprehensive income for the year	-	-	-	336,946	-	336,946
Total comprehensive income for the year	-	-	482,386	336,946	-	819,332
BALANCES AT DECEMBER 31, 2019	**350,000**	**425,972**	**2,988,779**	**(213,212)**	**146**	**3,551,685**
COMPREHENSIVE INCOME						
Net income for the year	-	-	500,884	-	-	500,884
Other comprehensive income for the year	-	-	-	113,782	-	113,782
Total comprehensive income for the year	-	-	500,884	113,782	-	614,666
BALANCES AT DECEMBER 31, 2020	**350,000**	**425,972**	**3,489,663**	**(99,430)**	**146**	**4,166,351**

(The notes on pages 1 to 57 are integral part of these financial statements.)

BPI/MS Insurance Corporation

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(In thousands of Philippine Peso)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	19	805,235	1,145,846
Contributions to retirement plan	14	(14,133)	(18,472)
Interest received		10,242	41,542
Interest paid		(2,474)	(4,485)
Income taxes paid		(270,798)	(141,851)
Net cash from operating activities		**528,072**	**1,022,580**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Held-to-maturity financial assets	5	(207,376)	(61,354)
Available-for-sale financial assets	6	(4,892,608)	(4,315,132)
Property and equipment	9	(73,273)	(21,864)
Software costs	10	(19,371)	(3,880)
Proceeds from:			
Maturities of held-to-maturity financial assets	5	219,638	303,814
Disposals of available-for-sale financial assets	6	4,402,109	2,909,678
Disposals of property and equipment	9	-	160
Interest received		200,173	157,533
Dividends received		14,808	18,838
Income taxes paid		(43,838)	(44,584)
Net cash used in investing activities		**(399,738)**	**(1,056,791)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments on lease liabilities	21	(73,879)	(60,613)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		54,455	(94,824)
CASH AND CASH EQUIVALENTS			
At January 1		1,178,729	1,239,326
Effect of exchange rate changes on cash and cash equivalents		(51,666)	34,227
At December 31	2	**1,181,518**	**1,178,729**

(The notes on pages 1 to 57 are integral part of these financial statements.)

1 Corporate information

BPI/MS Insurance Corporation (the "Company") was incorporated and registered with the Securities and Exchange Commission ("SEC") primarily to carry on and engage in the business of insurance, reinsurance, bonding, fidelity and guaranty, except life insurance.

The Company's immediate and ultimate parent company is the Bank of the Philippine Islands ("BPI" or Parent Company), a local universal bank listed in the Philippine Stock Exchange, Inc., with a 51.4% ownership. The other 48.5% is owned by MSIG Holdings (Asia) PTE. Ltd. (MSIG), a corporation registered in Singapore.

As at December 31, 2020, the Company has 556 employees (2019 - 598 employees).

The Company's registered office address, which is also its principal place of business, is at the 11th, 14th, 16th and 18th Floors of BPI-Philam Life Makati, 6811 Ayala Avenue, Salcedo Village Bel-Air, City of Makati NCR, Fourth District, Philippines 1209.

On March 16, 2020, the Philippine Government declared the entire island of Luzon under an Enhanced Community Quarantine (ECQ) due to the increasing coronavirus disease (COVID-19) cases in the country. The ECQ mandated the closure of non-essential businesses and strict home quarantine which resulted in the slowdown of the economy. The non-life insurance industry was classified under non-essential businesses which caused the Company's head office and branches to temporarily hold off onsite operations until May 14, 2020.

The Company sought exemption from the Insurance Commission, Department of Finance, and the COVID-19 Interagency Task Force to be allowed to operate through a skeletal force. Approval was subsequently granted and the Company was allowed to operate at 10% staffing levels starting May 15, 2020. The Company has prioritized the health and safety of its employees while providing minimum service levels to its customers and distribution partners.

Effective June 1, 2020, the National Capital Region shifted to a relaxed general community quarantine (GCQ), which allowed for the reopening of most businesses, although in reduced capacity and under strict health protocols. By then, the Company has operated at 50% staffing levels. The Company focused its efforts on retaining its existing customers/renewals given the anticipated lower new business due to the impact of lockdown to the economy. Retention offers were launched and client concessions were provided to alleviate the financial difficulties experienced by the Company's policyholders.

While the country is mostly still under community quarantine, the Company is currently laying the foundation to shift to digital touch points and channels to adapt and grow in this new contact-less economy.

These financial statements were approved and authorized for issuance by the Company's Board of Directors ("BOD") on March 2, 2021.

2 Cash and cash equivalents

The details of the account at December 31 follow:

	2020	2019
Cash on hand	7,657	6,108
Cash in banks		
Philippine peso	215,289	449,406
US dollar	159,790	301,541
Japanese yen	30,045	15,263
Time deposits		
Philippine peso	404,574	377,605
US dollar	364,163	28,806
	1,181,518	1,178,729

Cash in banks earn interest at prevailing bank deposit rates.

The Philippine peso and US dollar time deposits have maturities of 90 days or less. The Philippine peso time deposits have annual interest rates ranging from 0.10% to 3.20% in 2020 (2019 - 0.375% to 5.10%). The US dollar time deposits bear interest rates ranging from 0.0425% to 1.11% in 2020 (2019 - 0.15% to 1.49%).

Interest income earned on cash and cash equivalents for the year ended December 31, 2020 amounts to P7 million (2019 - P38 million) (Note 16).

Cash and cash equivalents are classified as current.

3 Insurance receivable, net

The details of the account at December 31 follow:

	2020	2019
Due from agents and brokers	2,267,465	2,110,143
Due from ceding companies	139,172	207,035
Reinsurance recoverable on paid losses	126,934	247,143
Funds held by ceding companies	10,140	10,165
	2,543,711	2,574,486
Allowance for impairment	(78,665)	(48,989)
	2,465,046	2,525,497

The movements in the allowance for impairment on amounts due from agents and brokers for the years ended December 31 are as follows:

	2020	2019
At January 1	48,989	44,768
Provision for impairment losses	42,335	9,893
Write-offs	(12,659)	(5,672)
At December 31	78,665	48,989

The following presents the breakdown of gross insurance receivables based on maturity profile at December 31:

	2020	2019
Current	2,444,980	2,494,555
Non-current	98,731	79,931
	2,543,711	2,574,486

4 Reinsurance balances

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.

The details of reinsurance balances at December 31 are as follows:

	Notes	2020	2019
Insurance receivable, gross	3	2,543,711	2,574,486
Less: Reinsurance balances			
Due to reinsurers and ceding companies		(1,796,941)	(1,930,846)
Funds held for reinsurers		(297,964)	(324,669)
Balance, net of reinsurance		448,806	318,971
Reserve for outstanding losses	15	4,219,205	3,455,650
Less: Reinsurance recoverable on unpaid losses		(3,057,246)	(2,471,449)
Balance, net of reinsurance	15	1,161,959	984,201
Reserve for unearned premiums		3,503,183	3,719,548
Less: Deferred reinsurance premium		(1,797,819)	(1,929,879)
Balance, net of reinsurance		1,705,364	1,789,669

All insurance and reinsurance assets and liabilities are substantially settled within one year.

Interest expense on funds held for reinsurers for the year ended December 31, 2020 amounts to P2 million (2019 - P4 million).

5 Held-to-maturity ("HTM") financial assets

The account consists of peso-denominated fixed-term treasury notes with interest rates ranging from 2.9% to 9.7% in 2020 and 2019.

HTM financial assets at December 31 consist of:

	2020	2019
Government securities	314,766	304,723
Corporate bonds	126,100	153,100
	440,866	457,823

Movements in the account for the years ended December 31 follow:

	2020	2019
At January 1	457,823	700,660
Additions	207,376	61,354
Maturities	(219,638)	(303,814)
Amortization of premium, net	(4,695)	(377)
At December 31	440,866	457,823

On September 20, 2013, President Benigno S. Aquino III signed Republic Act No. ("R.A.") 10607, otherwise known as the "Amended Insurance Code" (the "amended Code") into law. Under Section 209 of the amended Code, to the extent of 25% of the insurance company's minimum net worth, the insurance company should invest in bonds and other debt securities approved by the Insurance Commission ("IC") as a security for the benefit of the Company's policyholders and creditors. As at December 31, 2020, government securities totaling P193 million (2019 - P138 million) are deposited with the Bureau of Treasury ("BTr") in accordance with the provision of the amended Code as a security for the benefit of policyholders and creditors of the Company.

The fair value of the HTM financial assets at December 31, 2020 amounts to P464 million (2019 - P476 million).

The following presents the breakdown of HTM financial assets based on maturity profile at December 31:

	2020	2019
Current	81,100	137,137
Non-current	359,766	320,686
	440,866	457,823

Interest income earned from HTM financial assets for the year ended December 31, 2020 amounts to P24 million (2019 - P29 million) (Note 16).

6 Available-for-sale ("AFS") financial assets

AFS financial assets at December 31 consist of:

	2020	2019
Equity securities		
Listed shares	806,877	798,448
Unlisted shares	8,635	9,534
Debt securities		
Fixed-term treasury notes	4,439,939	3,816,758
US dollar treasury bonds	23,326	-
Investment in mutual funds	189,097	109,343
	5,467,874	4,734,083

The Company has an Investment Management and Custodianship Agreement with BPI Asset & Management Trust Corporation ("AMTC") with respect to the above AFS financial assets.

Listed equity securities include common shares of BPI at December 31, 2020 amounting to P33 million (2019 - P43 million).

Movements in the account for the years ended December 31 follow:

	2020	2019
At January 1	4,734,083	2,948,822
Additions	4,892,608	4,315,132
Disposals	(4,343,983)	(2,894,390)
Amortization of (premium) discount, net	(9,961)	6,468
Net fair value gain	192,893	358,146
Exchange differences	2,234	(95)
	5,467,874	4,734,083

Dividend income earned from listed and unlisted equity securities as of December 31, 2020 amounts to P14 million and P1 million, respectively (2019 - P13 million and P6 million, respectively).

Debt securities have interest rates ranging from 2.1% to 12% in 2020 (2019 - 2.7% to 6.4%). Interest income earned on debt securities for the year ended December 31, 2020 amounts to P166 million (2019 - P148 million) (Note 16).

For the year ended December 31, 2020, the Company sold certain AFS financial assets, which resulted in a gain of P58 million (2019 - P15 million). Proceeds from disposals of AFS financial assets for the year ended December 31, 2020 amount to P4 billion (2019 - P3 billion).

The following presents the breakdown of AFS financial assets based on maturity profile at December 31:

	2020	2019
Current	1,720,384	2,100,271
Non-current	3,747,490	2,633,812
	5,467,874	4,734,083

7 Other receivables, net

The details of the account at December 31 follow:

	2020	2019
Mortgage loans - employees	1,774	1,926
Accounts receivable		
Trade	3,032	2,681
Non-trade	44,739	37,924
Creditable withholding taxes	51,049	-
	100,594	42,531
Allowance for impairment	(480)	(480)
	100,114	42,051

Accounts receivable - non-trade consists mainly of employee salary and car facility loans while accounts receivable - trade represents receivable from agents and credit card companies for the unremitted premium collections.

The Company has a Service Agreement with the Parent Company for the processing, servicing and administration of the latter's mortgage and other loans (Note 20).

Interest income on mortgage and other loans for the year ended December 31, 2020 amounts to P2 million (2019 - P3 million) (Note 16).

There is no movement in the allowance for impairment on accounts receivable - non-trade for the years ended December 31, 2020 and 2019.

The following presents the breakdown of other receivables, net, based on maturity profile at December 31:

	2020	2019
Current	79,251	24,433
Non-current	20,863	17,618
	100,114	42,051

8 Accrued investment income

The account at December 31 represents income earned but not yet received from the following:

	2020	2019
Cash in bank		
Time deposits	177	908
Financial assets		
HTM financial assets	4,043	35,573
AFS financial assets	25,302	4,021
	29,522	40,502

The amounts presented above are expected to be realized within one year.

9 Property and equipment, net

The movements in the account for the years ended December 31 are as follows:

	Condominium units	EDP equipment	Furniture, fixtures and office equipment	Leasehold improvements	Transportation equipment	Buildings and improvements	Total
Year ended December 31, 2020							
Opening net book value	25,731	9,244	3,567	25,152	2,815	107,265	173,774
Additions	-	9,353	978	7,083	4,409	51,450	73,273
Depreciation charge	(5,064)	(7,043)	(1,926)	(19,341)	(3,494)	(67,938)	(104,806)
Closing net book value	20,667	11,554	2,619	12,894	3,730	90,777	142,241
At December 31, 2020							
Cost	126,687	149,515	38,771	163,641	25,005	223,731	727,350
Accumulated depreciation	(106,020)	(137,961)	(36,152)	(150,747)	(21,275)	(132,954)	(585,109)
Net book value	20,667	11,554	2,619	12,894	3,730	90,777	142,241
Year ended December 31, 2019							
Opening net book value	30,795	11,785	4,482	33,717	3,734	166,047	250,560
Additions	-	6,533	2,666	9,645	3,020	6,234	28,098
Disposals							
Cost	-	(868)	(1,337)	-	(1,140)	-	(3,345)
Accumulated depreciation	-	868	1,337	-	980	-	3,185
Depreciation charge	(5,064)	(9,074)	(3,581)	(18,210)	(3,779)	(65,016)	(104,724)
Closing net book value	25,731	9,244	3,567	25,152	2,815	107,265	173,774
At December 31, 2019							
Cost	126,687	140,162	37,793	156,558	20,596	172,281	654,077
Accumulated depreciation	(100,956)	(130,918)	(34,226)	(131,406)	(17,781)	(65,016)	(480,303)
Net book value	25,731	9,244	3,567	25,152	2,815	107,265	173,774

Effective January 1, 2019, the Company has recognized right-of-use assets and lease liabilities from the leased spaces for its main office and branches which are classified under building and improvements above (Note 21).

Condominium units pertain to properties owned by the Company for its own use.

Depreciation charge is included in Occupancy and equipment-related expenses in the statement of income.

10 Software costs, net

The movements in the account for the years ended December 31 follow:

	2020	2019
At January 1	7,279	10,989
Additions	19,371	3,880
Amortization charge	(5,550)	(7,590)
At December 31	21,100	7,279

Amortization charge is included in Occupancy and equipment-related expenses in the statement of income.

11 Other assets, net

The details of the account at December 31 follow:

	Notes	2020	2019
Rental deposits	21	29,499	30,644
Prepayments		19,271	18,817
Investment in an associate, net		2,364	2,277
Security fund		267	267
Assets held-for-sale, net	25	70	70
		51,471	52,075

Prepayments consist of medical and uniform allowance, and signing bonus of staff.

Investment in an associate at December 31, 2020 and 2019 consist of the acquisition cost of the 49% ownership in FCS Insurance Agency and Consultants, Inc., net of allowance for impairment of P2 million. There is no additional provision for impairment in 2020 and 2019.

12 Accounts payable, accrued expenses and other liabilities

The details of the account at December 31 are as follows:

	Notes	2020	2019
Taxes payable		352,632	383,799
Cash collateral		266,315	211,582
Accounts payable		233,003	162,804
Accruals and provisions		167,061	109,153
Lease liabilities	21	98,024	113,120
Retirement benefit obligation	14	69,812	31,434
		1,186,847	1,011,892

Taxes payable include outstanding liabilities on current income tax, value-added tax, withholding tax, premium tax and final tax.

Cash collateral pertains to cash deposits posted primarily by building contractors as security for the bond issued by the Company.

Accounts payable include outstanding liabilities to suppliers for goods and services received, payroll liabilities to government agencies and unapplied bank credits.

Accruals and provision consist mainly of service fees due to related parties (Note 20), commissions and provision for employee benefits.

Lease liabilities represent the present value of future lease payments, discounted at the Company's incremental borrowing rate (Note 21).

Maturity profile of accounts payable, accrued expenses and other liabilities at 31 December follows:

	2020	2019
Current	804,950	723,338
Non-current	381,897	288,554
	1,186,847	1,011,892

13 Staff costs

The details of the account for the years ended December 31 are as follows:

	Note	2020	2019
Salaries and wages		360,464	344,723
Retirement benefits	14	22,533	19,656
Medical and hospital allowances		16,432	15,844
Social security costs		14,072	13,017
Other employee benefits		23,626	20,178
		437,127	413,418

Other employee benefits pertain primarily to group term insurance and fringe benefits of personnel.

14 Post-employment benefit plan

The Company has a trusteed defined benefit plan. Under the plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 175% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 125% of his basic monthly salary, if he has rendered less than 10 years of service.

The defined benefit cost and contributions to be paid by the Company are determined by an independent actuary by applying the projected unit credit method.

The amounts of retirement benefit obligation recognized in the statement of financial position under Accounts payable, accrued expenses and other liabilities at December 31 are as follows:

	2020	2019
Present value of obligation	311,629	275,190
Fair value of plan assets	(241,817)	(243,756)
Retirement benefit obligation	69,812	31,434

The movements in the present value of defined retirement benefit obligation for the years ended December 31 are as follows:

	2020	2019
At January 1	275,190	232,420
Current service cost	20,139	18,074
Interest cost	15,246	16,897
Benefits paid	(37,685)	(18,383)
Remeasurements arising from:		
Changes in financial assumptions	40,756	32,330
Changes in demographic assumptions	(2,929)	(1,829)
Experience adjustments	912	(4,319)
At December 31	311,629	275,190

The movements in the fair value of plan assets for the years ended December 31 are as follows:

	2020	2019
At January 1	243,756	210,615
Contributions	14,133	18,472
Asset return in net interest cost	12,852	15,315
Benefits paid	(37,685)	(18,383)
Remeasurement - return on plan assets	8,761	17,736
At December 31	241,817	243,756

The Company has no further transactions with the fund other than the contributions presented above for 2020 and 2019.

The carrying value of plan assets as at December 31, 2020 and 2019 is the same as its fair value. These assets, which are held in trust and governed by local regulations and practices in the Philippines, are as follows:

	2020		2019	
	Amount	%	Amount	%
Government debt securities	142,455	58.91	143,751	58.97
Corporate and other debt securities	43,743	18.09	51,291	21.04
Equity securities	54,462	22.52	46,339	19.01
Others	1,157	0.48	2,375	0.98
	241,817	100.00	243,756	100.00

Plan assets, in the form of equity securities, of the retirement plan include investment in BPI’s common shares with fair value as at December 31, 2020 of P2 million (2019 - P3 million).

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

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

	2020	2019
Less than a year	48,575	27,310
Between 1-5 years	95,480	119,897
Between 5-10 years	187,288	164,656
Between 10-15 years	180,238	203,275
Between 15-20 years	139,800	156,605
Over 20 years	294,083	369,482
	945,464	1,041,225

The average remaining service life of employees as at December 31, 2020 is 26.6 years (2019 - 27.3 years). The Company contributes to the plan depending on the suggested funding contribution as calculated by an independent actuary. The expected contributions for 2021 amounts to P14 million.

The amounts recognized in other comprehensive income ("OCI") for the years ended December 31 are as follows:

	2020	2019
Remeasurement gain (loss)		
Due to changes in financial assumptions	(40,756)	(32,330)
Due to changes in demographic assumptions	2,929	1,829
Due to experience adjustments	(912)	4,319
Remeasurement - return on plan assets	8,761	17,736
	(29,978)	(8,446)
Deferred income tax	8,993	2,534
Net amount	20,985	(5,912)

The amounts recognized in the statement of income under Staff costs (Note 13) for the years ended December 31 are as follows:

	2020	2019
Current service cost	20,139	18,074
Net interest cost	2,394	1,582
	22,533	19,656

The principal actuarial assumptions used as at and for the years ended December 31 are as follows:

	2020	2019
Discount rate	3.74%	5.54%
Salary increase rate	5.00%	5.00%

Discount rate

The discount rate was determined in accordance with the Philippine Interpretations Committee ("PIC") approved Q&A 2008-01 (Revised), which mandates that discount rates reflect (a) benefit cash flows and (b) use of zero coupon rates, even though theoretically derived.

The procedure of bootstrapping was applied to the Bankers Association of the Philippines (BAP) PHP Bloomberg BVAL Reference Rates (BVAL) benchmark reference curve for the government securities to arrive at the theoretical zero coupon yield curve. These derived rates were then used to compute the present value of the expected future benefit cash flows across valuation years.

Future salary increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding mortality experience are set based on published statistics and experience in the Philippines.

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

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

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
At December 31, 2020			
Discount rate	0.50%	(13,307)	12,374
Rate of salary increase	1.00%	(27,007)	23,843
At December 31, 2019			
Discount rate	0.50%	(22,440)	19,576
Rate of salary increase	1.00%	(22,336)	19,847

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the retirement liability at the reporting date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

15 Provision for losses and claims

(a) Process used to decide on assumptions

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

(b) Changes in assumptions and sensitivity analysis

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

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

The analysis below is performed for a reasonable possible movement in key assumptions, with all other assumptions held constant, on income and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis. It should also be stressed that these assumptions are non-linear and larger or smaller impacts cannot easily be gleamed from these results.

The key assumptions considered in the sensitivity analysis are as follows:

- Initial Expected Loss Ratio ("IELR") for accident year
- Selected Ultimate Loss Ratio ("ULR")

The IELR is a parameter used in the Expected Claims Ratio and Bornhuetter-Ferguson methods. These methods are usually used by actuaries to estimate the claim liabilities for more recent accident periods where there is little credible data.

The selected ULR is derived from the best estimation of claims reserve and is a major factor to determine the actuarial unexpired risk reserve which is a component of premium liabilities. A change in the expected ULR also affects the claim liabilities as it is a function of ultimate losses.

To show the sensitivity of this assumption at December 31, the impact of changing IELR and ULR by 10% multiplicatively is shown in the table below.

	2020				2019			
	IELR		ULR		IELR		ULR	
	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%
Gross liabilities	65	(65)	267	(267)	82	(82)	254	(254)
Net liabilities	25	(25)	139	(139)	31	(31)	166	(166)
Income before tax	(25)	25	(139)	139	(31)	31	(166)	166
Equity	(17)	17	(97)	97	(22)	22	(116)	116

(c) Insurance policy reserve

On December 28, 2016, the Insurance Commission (IC), through its Circular Letter (CL) No. 2016-67, issued the New Valuation Standard for Insurance Policy Reserve with effect beginning January 1, 2017 and onwards. Among others, the New Valuation Standard for Insurance Policy Reserve provides for:

(i) the determination of premium liabilities based on the higher of Unearned Premium Reserve (UPR) and Unearned Risk Reserve (URR);
(ii) consideration of the Claims Handling Expense (CHE);
(iii) consideration of Margin for Adverse Deviation (MfAD) to allow for inherent uncertainty of the best estimate of policy reserve; and
(iv) certification of an actuary on the calculation of the insurance policy reserve in accordance with the New Valuation Standard for Insurance Policy Reserve prescribed by the IC.

Beginning January 1, 2017, the initial year of implementation of the New Valuation Standard on Insurance Policy Reserve, the IC through its CL 2016-69 issued on December 28, 2016, has relaxed the valuation requirements in determining the Insurance Policy Reserve to consider:

(i) set up of premium liabilities using UPR alone, instead of the higher of UPR and URR; and
(ii) set up MfAD to zero, instead of Company specific MfAD.

On March 9, 2018, the IC has issued CL No. 2018-18, which supersedes CL No. 2016-67. Under this new circular, premium liabilities shall be determined on an aggregate basis and a computation should be performed to determine whether the URR required is greater or smaller than the UPR, net of deferred acquisition (DAC). If the URR is greater, then the difference should be booked as an additional reserve on top of the UPR.

On the same date, the IC has also issued an amendment to CL No. 2016-69 through CL No. 2018-19. As amended, MfAD shall be entity-specific and it shall be allowed to be set as follows:

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

In 2017, the Company has adopted certain provisions of the New Valuation Standard for Insurance Policy Reserve issued by the IC through its CL 2016-69 as its accounting policy for reserving, particularly the incorporation of MfAD and CHE in determining its claims obligation. The adoption of the valuation standards for insurance policy reserve is consistent with the Company's mandate from its Regional Holding Company - MSIG Holdings (Asia) PTE. Ltd. In determining its Insurance Policy Reserve, the Company made use of the actual historical claims data for the last 10 years, CHE at 6% of the best estimate of IBNR and outstanding claims and 10% MfAD after considering the variability of claims experience within a class of business and diversification between classes of business. The Company has engaged its Regional Actuary in determining its Insurance Policy Reserve and this is subsequently reviewed and certified by an independent actuary accredited by the Insurance Commission.

As at December 31, 2020, the Company's UPR, net of DAC, is determined to be higher than the URR. As such, the Company did not require any additional provision in respect to the unearned premiums. Moreover, the Company has applied entity-specific MfAD for both claims and premiums liabilities, which is based on the bootstrapping method using the Company's own data at 75% sufficiency level for policy reserves.

As at December 31, 2020 the total gross policy reserve amounts to P7,480 million (2019 - P6,896 million), which includes provision for IBNR losses of P1,211 million (2019 - P1,088 million) while the total net policy reserve amounts to P2,806 million (2019 - P2,693 million), which includes provision for IBNR losses of P442 million (2019 - P400 million).

(d) Claims development table

Presented below is a table that shows the development of claims, at gross and net of reinsurance, over a period of time on a gross and net of reinsurance basis.

Gross of reinsurance

As at December 31, 2020	Accident year					
Year of payment	2016	2017	2018	2019	2020	Total
2016	1,231,240	-	-	-	-	1,231,240
2017	203,581	2,261,547	-	-	-	2,465,128
2018	(2,351)	285,155	2,319,644	-	-	2,602,448
2019	(16,769)	(164,800)	(33,353)	1,499,978	-	1,285,056
2020	3,557	(3,646)	(101,017)	613,442	1,551,899	2,064,235
Current estimate of claims	1,419,258	2,378,256	2,185,274	2,113,420	1,551,899	9,648,107
Cumulative payments to date	(1,397,474)	(2,081,320)	(2,015,088)	(1,381,566)	(492,974)	(7,368,422)
Liability recognized in the statement of financial position	21,784	296,936	170,186	731,854	1,058,925	2,279,685
Liability in respect of prior years						728,883
Total gross liability included in the statement of financial position, excluding IBNR						3,008,568
Provision for IBNR						1,210,637
Reserve for outstanding losses (Note 4)						4,219,205

As at December 31, 2019	Accident year					
Year of payment	2015	2016	2017	2018	2019	Total
2015	1,717,610	-	-	-	-	1,717,610
2016	197,762	1,231,240	-	-	-	1,429,002
2017	19,251	203,581	2,261,547	-	-	2,484,379
2018	(134,465)	(2,351)	285,155	2,319,644	-	2,467,983
2019	4,217	(16,769)	(164,800)	(33,353)	1,499,978	1,289,273
Current estimate of claims	1,804,375	1,415,701	2,381,902	2,286,291	1,499,978	9,388,247
Cumulative payments to date	(1,262,358)	(1,395,281)	(2,045,871)	(1,777,702)	(731,005)	(7,212,217)
Liability recognized in the statement of financial position	542,017	20,420	336,031	508,589	768,973	2,176,030
Liability in respect of prior years						191,407
Total gross liability included in the statement of financial position, excluding IBNR						2,367,437
Provision for IBNR						1,088,213
Reserve for outstanding losses (Note 4)						3,455,650

Net of reinsurance

As at December 31, 2020	Accident year					
Year of payment	2016	2017	2018	2019	2020	Total
2016	1,000,743	-	-	-	-	1,000,743
2017	132,593	1,052,153	-	-	-	1,184,746
2018	(3,391)	126,215	1,214,683	-	-	1,337,507
2019	5,028	4,428	146,065	1,156,704	-	1,312,225
2020	1,445	2,321	6,359	269,426	855,446	1,134,997
Current estimate of claims	1,136,418	1,185,117	1,367,107	1,426,130	855,446	5,970,218
Cumulative payments to date	(1,127,725)	(1,178,139)	(1,350,338)	(1,222,289)	(427,487)	(5,305,978)
Liability recognized in the statement of financial position	8,693	6,978	16,769	203,841	427,959	664,240
Liability in respect of prior years						56,176
Total net liability included in the statement of financial position, excluding IBNR						720,416
Provision for IBNR						441,543
Reserve for outstanding losses (Note 4)						1,161,959

As at December 31, 2019	Accident year					
Year of payment	2015	2016	2017	2018	2019	Total
2015	866,688	-	-	-	-	866,688
2016	120,550	1,000,743	-	-	-	1,121,293
2017	(357)	132,593	1,052,153	-	-	1,184,389
2018	15,419	(3,391)	126,215	1,214,683	-	1,352,926
2019	(2,851)	5,028	4,428	146,065	1,156,704	1,309,374
Current estimate of claims	999,449	1,134,973	1,182,796	1,360,748	1,156,704	5,834,670
Cumulative payments to date	(954,870)	(1,125,799)	(1,159,371)	(1,317,592)	(705,315)	(5,262,947)
Liability recognized in the statement of financial position	44,579	9,174	23,425	43,156	451,389	571,723
Liability in respect of prior years						12,532
Total gross liability included in the statement of financial position, excluding IBNR						584,255
Provision for IBNR						399,946
Reserve for outstanding losses (Note 4)						984,201

16 Interest income; Other (expense) income, net

Interest income

The details of the account for the years ended December 31 are as follows:

	Notes	2020	2019
Interest income from:			
AFS financial assets	6	165,937	148,100
HTM financial assets	5	23,987	28,923
Cash and cash equivalents	2	7,202	38,003
Mortgage and other loans	7	2,309	2,765
		199,435	217,791

Other (expense) income, net

The details of the account for the years ended December 31 are as follows:

	Note	2020	2019
Foreign exchange loss, net	25	(21,215)	(9,223)
Investment fees		(10,740)	(9,091)
Rental income		4,674	4,397
Settlement fees		3,690	6,574
Miscellaneous		7,756	39,773
		(15,835)	32,430

Miscellaneous income pertains mainly to reversal of certain liabilities after it has been established that there is no further payment needed to be made by the Company.

17 Income taxes

The details of the account for the years ended December 31 follow:

	2020	2019
Current	219,667	208,445
Deferred	(36,633)	(31,646)
	183,034	176,799

Current tax for the year ended December 31, 2020 includes final tax of P43,920 (2019 - P44,686).

The movements in deferred income tax ("DIT") assets and liabilities for the years ended December 31 are as follows:

	At January 1, 2020	Credited (charged) to income	Credited to OCI	At December 31, 2020
DIT assets				
Excess of reserve for unearned premium recognized over tax basis, net	181,574	(2,629)	-	178,945
Allowance for impairment	15,435	8,903	-	24,338
Contingent profit commission	5,028	458	-	5,486
Accruals and provisions	3,247	2,957	-	6,204
Retirement benefit obligation	9,430	1,219	10,295	20,944
Provision for IBNR, net of reinsurance	119,984	12,480	-	132,464
	334,698	23,388	10,295	368,381
DIT liabilities				
DAC	(24,321)	5,853	-	(18,468)
Unrealized foreign exchange (gain) loss, net	(3,192)	7,392	-	4,200
	(27,513)	13,245	-	(14,268)
Net DIT assets	307,185	36,633	10,295	354,113

	At January 1, 2019	Credited (charged) to income	Credited to OCI	At December 31, 2019
DIT assets				
Excess of reserve for unearned premium recognized over tax basis, net	176,453	5,121	-	181,574
Allowance for impairment	14,169	1,266	-	15,435
Contingent profit commission	4,447	581	-	5,028
Accruals and provisions	3,268	(21)	-	3,247
Retirement benefit liability	6,541	355	2,534	9,430
Provision for IBNR, net of reinsurance	104,924	15,060	-	119,984
	309,802	22,362	2,534	334,698
DIT liabilities				
DAC	(23,365)	(956)	-	(24,321)
Unrealized foreign exchange gain, net	(13,432)	10,240	-	(3,192)
	(36,797)	9,284	-	(27,513)
Net DIT assets	273,005	31,646	2,534	307,185

The reconciliation between the provision for income tax computed at the statutory income tax rate and the actual provision for income tax at December 31 follows:

	2020	2019
Income before income tax	683,918	659,185
Income tax at statutory tax rate of 30%	205,175	197,756
Add (deduct):		
Income subject to lower final tax rate, net	(15,218)	(22,369)
Tax-exempt income, net	(21,880)	(7,859)
Non-deductible expenses	14,957	9,271
Provision for income tax	183,034	176,799

18 Share capital; Retained earnings; Dividends; OCI

18.1 Share capital; share premium

Details of share capital as at December 31, 2020 and 2019 follow:

	Number of shares	Amount (in thousands)
Authorized share capital (at P100 par value per share)	3,550,000	355,000
Issued share capital	3,500,000	350,000

The excess of proceeds from the issuance of share capital at par value, which amounted to P426 million, is credited to share premium.

18.2 Retained earnings

As at December 31, 2020 and 2019, the Company has excess retained earnings over its paid-up capital.

In 2008, the SEC issued Memorandum Circular No. 11 providing the guidelines in determining the appropriate amount of retained earnings available for dividend distribution taking into consideration the effective guidelines of the SEC.

On January 24, 2013, the SEC issued Financial Reporting Bulletin No. 14, *Reconciliation of Retained Earnings Available for Dividend Declaration*, which prescribed adjustments as indicated in Annex 68-C of SRC Rule 68.

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

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

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

The Company plans to use the excess retained earnings over its paid-up capital as at December 31, 2020 amounting to P2.7 billion (2019 - P2.2 billion) as follows:

- Buffer to support growth as the Company projects to grow 17%, 11%, and 11.3% in 2021, 2022, and 2023 respectively; and
- As additional financial resources for future uncertainties, particularly for catastrophe losses, as based on a stress test using a natural catastrophe (typhoon scenario), RBC ratio should be at least 250% in order to withstand the losses and remain above the minimum regulatory requirement.

Management will continue to evaluate the need to declare dividends after considering the regulatory capital requirements of the IC on fixed capitalization and RBC requirements. Approval of the Company's BOD will be requested as appropriate.

18.3 Dividends

The Company's BOD did not declare dividends in 2020 and 2019 in consideration of the regulatory requirements of the IC.

18.4 OCI

Details of and movements in accumulated OCI for the years ended December 31 follow:

	Notes	2020	2019
Fair value reserve on AFS financial assets			
At January 1		(187,823)	(530,681)
Changes in fair value of AFS financial assets	6	192,893	358,146
Fair value losses transferred to profit or loss		(58,126)	(15,288)
At December 31		(53,056)	(187,823)
Remeasurement losses on defined benefit plan, net			
At January 1		(25,389)	(19,477)
Remeasurements for the year	14	(29,978)	(8,446)
DIT effect	14,17	8,993	2,534
At December 31		(46,374)	(25,389)
		(99,430)	(213,212)

The related changes in the fair value of AFS financial assets are not subjected to tax since the related financial assets have a maturity of more than 5 years.

19 Cash generated from operations

The details of cash generated from operations for the years ended December 31 follow:

	Notes	2020	2019
Income before income tax		683,918	659,185
Adjustments for:			
Depreciation and amortization	9,10	110,356	112,314
Provision for impairment losses	3	42,335	9,893
Amortization of premium (discount), net	5,6	14,656	(6,091)
Gain on sale of AFS financial assets	6	(58,126)	(15,288)
Unrealized foreign exchange loss (gain), net	25	48,131	(34,132)
Retirement benefits	14	22,533	19,656
Interest expense	4,21	9,807	14,277
Interest income	16	(199,435)	(217,791)
Dividend income	6	(14,808)	(18,838)
Operating income before changes in operating assets and liabilities		659,367	523,185
Changes in operating assets and liabilities			
(Increase) decrease in:			
Insurance receivable, net		18,116	(236,000)
Reinsurance recoverable on unpaid losses		(585,797)	915,736
Deferred reinsurance premium		132,060	(212,018)
Deferred acquisition cost, net		19,510	(3,187)
Other receivables, net		(7,014)	(460)
Other assets		604	(9,257)
Increase (decrease) in:			
Reserve for outstanding losses		763,555	(877,656)
Reserve for unearned premiums		(216,365)	244,593
Due to reinsurers and ceding companies		(133,905)	538,422
Funds held for reinsurers		(26,705)	36,363
Accounts payable, accrued expenses and other liabilities		188,916	219,018
Income tax payable		(7,107)	7,107
Cash generated from operations		805,235	1,145,846

20 Related party transactions and balances

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

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

	Transactions for the year	Outstanding receivable (payable) balances	Terms and conditions
Cash in bank			
Parent	(61,619)	890,848	Bank deposits with the Parent Company and a fellow subsidiary, subject to prevailing interest rate, which can be withdrawn any time.
Entity under common control	(59,340)	2,545	
	(120,959)	893,393	
Premiums written			
Parent	51,794	60,610	Premiums provided for general insurance liability and insurance coverage of various properties, payable in cash within 90 days.
Entities under common control	22,556	44,446	Premiums provided for group personal accident, general insurance liability and insurance coverage of various properties, payable in cash within 90 days.
Investor of Parent	375	308	Premiums provided for general insurance liability and insurance coverage of various properties, payable in cash within 90 days.
Other related parties	255,426	253,396	
	330,151	358,760	
Reinsurance transactions with parent of shareholder			
Reinsurance premiums ceded	689,855	732,214	The outstanding balances are settled in cash and are due within 30 - 90 days after the end of each quarter.
Reinsurance commissions	138,982	137,705	
Interest expense on premium reserve withheld	1,499	-	
	830,336	869,919	
Service fees			
Distribution of non-life insurance products			
Parent	122,436	(49,987)	Service fees arising from the distribution of non-life insurance products which are covered by a service agreement. Service fees are payable in cash on a quarterly basis.
Entity under common control	59,026	(25,214)	
Usage of credit card facility			
Parent	22,787	-	Subsidy fees arising from the usage of credit card facility in settlement of insurance premiums by the policyholders based on agreed rates, which are automatically netted against the remittance.
	204,249	(75,201)	
Commission expense			
Entity under common control	716	-	Fee for arranging reinsurance transactions, payable in cash on a semi-annual basis.
Other related parties	18,966	-	Commission fees on policies generated for the Company, payable in cash upon remittance of premiums.
	19,682	-	
Claims-related expenses			
Other related parties	33,275	-	Cost of parts and repairs pertaining to motor insurance claims of policyholders, payable in cash on demand.
Staff costs			
Key management personnel	36,833	-	Payments to key management personnel that include remuneration and bonuses are payable in cash within the year and first quarter of the following calendar year, respectively.
Retirement benefits			
Key management personnel	2,638	-	Refer to Note 14 - Post-employment benefit plan.
Occupancy and equipment-related expenses			
Parent	2,711	-	These are covered by lease agreements payable in cash within 5 days after end of each month.
Entity under common control	1,007	-	
Associate of Parent	25,593	-	
Other related party	31,448	-	
	60,759	-	

	Transactions for the year	Outstanding receivable (payable) balances	Terms and conditions
Interest income			
Parent	4,431	-	Interest income from bank deposits with the Parent Company and a fellow subsidiary which can be withdrawn any time.
Entity under common control	214	-	
	4,645	-	
Dividend income			
Parent	632	-	Collectible in cash within a year.
Investor of Parent	4,032	-	
Other related party	349	-	
	5,013	-	
Rental and other income			
Parent	6,766	-	Income from sub-lease of office space, including common area usage expenses, which is payable in cash on a monthly basis.
Other expenses			
Shareholders	60,759	21,814	Expenses incurred under service agreements covering general management support services, actuarial and enterprise risk management services as well as certain IT services, which are payable in cash within a month following the billing date.
Entity under common control	12,494	-	Expenses incurred under an Investment Management and Custodianship Agreement pertaining to the Company's investments. Payable in cash on demand.
Associate of Parent	8,309	841	Expenses related to group term and group hospitalization plans, which are payable in cash on a quarterly basis
Other related party	2,765	-	Expenses incurred for hotel accommodation in relation to conference and educational campaign for relationship manager, service fee for the administration of Covid-19 test and service fee for handling payroll-related transactions and e-learning management.
	84,327	22,655	

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

	Transactions for the year	Outstanding receivable (payable) balances	Terms and conditions
Cash in bank			
Parent	39,942	829,229	Bank deposits with the Parent Company and a fellow subsidiary, subject to prevailing interest rate, which can be withdrawn any time.
Entity under common control	61,885	61,885	
	101,827	891,114	
Premiums written			
Parent	24,127	6,018	Premiums provided for general insurance liability and insurance coverage of various properties, payable in cash within 90 days.
Entities under common control	23,377	23,696	Premiums provided for group personal accident, general insurance liability and insurance coverage of various properties, payable in cash within 90 days.
Investor of Parent	4,286	49,061	Premiums provided for general insurance liability and insurance coverage of various properties, payable in cash within 90 days.
Other related parties	232,139	230,677	
	283,929	309,452	
Reinsurance transactions with parent of shareholder			
Reinsurance premiums ceded	778,848	649,865	The outstanding balances are settled in cash and are due within 30 - 90 days after the end of each quarter.
Reinsurance commissions	137,079	117,079	
Interest expense on premium reserve withheld	1,479	-	
	917,406	766,944	

	Transactions for the year	Outstanding receivable (payable) balances	Terms and conditions
Service fees			
Distribution of non-life insurance products			
Parent	118,277	(42,767)	Service fees arising from the distribution of non-life insurance products which are covered by a service agreement. Service fees are payable in cash on a quarterly basis.
Entity under common control	57,456	(13,642)	
Usage of credit card facility			
Parent	30,721	-	Subsidy fees arising from the usage of credit card facility in settlement of insurance premiums by the policyholders based on agreed rates, which are automatically netted against the remittance.
	206,454	(56,409)	
Commission expense			
Entity under common control	372	-	Fee for arranging reinsurance transactions, payable in cash on a semi-annual basis.
Other related parties	10,209	-	Commission fees on policies generated for the Company, payable in cash upon remittance of premiums.
	10,581	-	
Claims-related expenses			
Other related parties	46,127	-	Cost of parts and repairs pertaining to motor insurance claims of policyholders, payable in cash on demand.
Staff costs			
Key management personnel	35,403	-	Payments to key management personnel that include remuneration and bonuses are payable in cash within the year and first quarter of the following calendar year, respectively.
Retirement benefits			
Key management personnel	2,414	-	Refer to Note 14 - Post-employment benefit plan.
Occupancy and equipment-related expenses			
Parent	3,460	-	These are operating lease agreements payable in cash within 5 days after end of each month.
Entity under common control	955	-	
Associate of Parent	27,394	(402)	
Other related party	24,936	-	
	56,745	(402)	
Interest income			
Parent	12,271	-	Interest income from bank deposits with the Parent Company and a fellow subsidiary which can be withdrawn any time.
Entity under common control	2,709	-	
	14,980	-	
Dividend income			
Parent	848	-	Collectible in cash within a year.
Investor of Parent	3,610	-	
Other related party	581	-	
	5,039	-	
Rental and other income			
Parent	6,299	-	Income from sub-lease of office space, including common area usage expenses, which is payable in cash on a monthly basis
Other expenses			
Shareholders	120,054	20,954	Expenses incurred under service agreements covering general management support services, actuarial and enterprise risk management services as well as certain IT services, which are payable in cash within a month following the billing date.
Entity under common control	10,980	-	Expenses incurred under an Investment Management and Custodianship Agreement pertaining to the Company's investments. Payable in cash on demand.
Associate of Parent	5,973	-	Expenses related to group term and group hospitalization plans, which are payable in cash on a quarterly basis.
Other related party	2,984	-	Expenses incurred for hotel accommodation in relation to conference and educational campaign for relationship manager, and service fee for handling payroll-related transactions and e-learning management.
	139,991	20,954	

The outstanding balances presented are unguaranteed and unsecured, non-interest bearing and collectible/payable in accordance with credit terms. The amounts are settled in cash at gross amounts. There are no guarantees provided or collaterals held arising from transactions with related parties. No provision for impairment has been made for amounts owed by related parties since collection is deemed to be reasonably certain.

21 Lease commitments

The Company has entered into various lease agreements covering its branches with terms ranging from one to five years. In accordance with the terms of the lease agreements, the Company paid P28 million deposits (2019 - P29 million) which are refundable at the end of the lease term.

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

Effective January 1, 2019, the Company has adopted PFRS 16, which requires recognition of right-of-use assets and lease liabilities amounting from its long-term lease agreements.

Details of right-of-use assets and lease liabilities at December 31 are as follows:

	2020	2019
Right-of-use assets (Note 9)		
Buildings and improvements	90,777	107,265
Lease liabilities (Note 12)		
Current	51,616	64,091
Non-current	46,408	49,029
	98,024	113,120

Additions to the right-of-use assets in 2020 amount to P51 million (2019 - P6 million). The total cash outflow for leases in 2020 amounts to P74 million (2019 - P61 million).

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Branch's incremental borrowing rate.

Movements in the lease liabilities for the years ended December 31 follow:

	2020	2019
At January 1	113,120	158,259
Additions during the year		
Lease liabilities on contracts entered during the year	51,450	5,682
Interest accretion on lease liabilities	7,333	9,792
Payments during the year		
Interest on lease liabilities	(7,333)	(9,792)
Principal portion of lease liabilities	(66,546)	(50,821)
At December 31	98,024	113,120

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

	2020	2019
Depreciation expense		
Buildings and improvements (Note 9)	67,938	65,016
Interest expense on lease liabilities (included in interest expense)	7,333	9,792
Expense relating to short-term leases (included in Occupancy and equipment-related expenses)	6,394	10,012

22 Additional information on the results of operation by line of business

Details of the results of operation by line of business follow:

For the year ended December 31, 2020

	Fire	Motor	Marine	Casualty	Bonds	Total
Premiums written, net	3,010,998	2,107,365	253,775	305,346	153,002	5,830,486
Reinsurance premiums ceded	(2,594,363)	(63,540)	(142,943)	(114,677)	(94,055)	(3,009,578)
Net premiums retained	416,635	2,043,825	110,832	190,669	58,947	2,820,908
Decrease in reserves	1,892	49,246	9,022	3,631	20,513	84,304
Premiums earned	418,527	2,093,071	119,854	194,300	79,460	2,905,212
Reinsurance commissions	307,688	242	25,606	20,888	40,421	394,845
Underwriting income	726,215	2,093,313	145,460	215,188	119,881	3,300,057
Gross claims incurred	1,025,147	890,432	132,135	111,624	23,228	2,182,566
Reinsurance recoveries	(793,095)	(46,735)	(99,331)	(56,559)	(7,392)	(1,003,112)
Claims and losses, net	232,052	843,697	32,804	55,065	15,836	1,179,454
Commission expense	384,468	302,677	54,855	68,712	68,548	879,260
Underwriting expenses	616,520	1,146,374	87,659	123,777	84,384	2,058,714
Net underwriting income	109,695	946,939	57,801	91,411	35,497	1,241,343
General and administrative expenses						(813,959)
Operating income						427,384
Investment and other income						256,534
Income before income tax						683,918
Provision for income tax						(183,034)
Net income for the year						500,884

For the year ended December 31, 2019

	Fire	Motor	Marine	Casualty	Bonds	Total
Premiums written, net	2,900,787	2,268,305	333,605	354,862	259,768	6,117,327
Reinsurance premiums ceded	(2,522,500)	(89,447)	(135,004)	(138,133)	(160,148)	(3,045,232)
Net premiums retained	378,287	2,178,858	198,601	216,729	99,620	3,072,095
(Increase) decrease in reserves	1,615	(9,544)	7,289	(23,761)	(8,173)	(32,574)
Premiums earned	379,902	2,169,314	205,890	192,968	91,447	3,039,521
Reinsurance commissions	352,268	4,634	20,972	20,216	61,753	459,843
Underwriting income	732,170	2,173,948	226,862	213,184	153,200	3,499,364
Gross claims incurred	119,771	1,076,992	67,469	43,297	3,897	1,311,426
Reinsurance recoveries	115,497	8,488	(60,166)	4,803	(5,145)	63,477
Claims and losses, net	235,268	1,085,480	7,303	48,100	(1,248)	1,374,903
Commission expense	398,686	318,878	64,967	88,925	66,594	938,050
Underwriting expenses	633,954	1,404,358	72,270	137,025	65,346	2,312,953
Net underwriting income	98,217	769,589	154,592	76,159	87,854	1,186,411
General and administrative expenses						(811,573)
Operating income						374,838
Investment and other income						284,347
Income before income tax						659,185
Provision for income tax						(176,799)
Net income for the year						482,386

23 Subsequent Events

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

The CREATE bill which seeks to lower corporate income tax rates and to rationalize fiscal incentives had been approved by the House of Representatives on September 13, 2019 and by the Senate on the third and final reading on November 26, 2020. The bill was approved by the Bicameral Conference Committee on February 4, 2021 but has yet to be signed into law by the President of the Philippines. Under the CREATE bill, effective July 1, 2020, the more significant changes are as follows:

- Reduction of corporate income tax (CIT) rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5,000,000 and with total assets not exceeding P100 Million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and,
- Minimum Corporate Income Tax (MCIT) rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

Since the CREATE bill has not been substantively enacted by the time the Company's financial statements were authorized for release, no disclosures were made in the Company's financial statements to reflect the potential impact of the proposed changes in corporate income tax rate.

24 Critical accounting estimates, assumptions and judgments in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

24.1 Critical accounting estimates

The ultimate liability arising from claims made under insurance contracts (Note 15)

Provision is made at the reporting date for the estimated cost of claims incurred but not settled at the reporting date. The liability for outstanding claims includes the cost of claims reported but yet to be paid, IBNR, CHE, including MfAD, to address uncertainty in the estimate of claims.

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

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is available. Classes of business which have a longer reporting tail and where the IBNR proportion of the total reserve is therefore high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these liabilities. For the short-tailed classes, claims are typically reported soon after the claim event, and tend to display less variation. In calculating the required levels of provisions, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

In arriving at the booked claims provisions, management also make allowance for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

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

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

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

The carrying value of reserve for outstanding losses, gross and net of reinsurance, as at December 31, 2020 amounts to P4,219 million (2019 - P3,456 million) and P1,161 million (2019 - P984 million), respectively.

Sensitivity analysis is further disclosed in Note 15 (b).

Estimated useful lives of property and equipment (Note 9) and software (Note 10)

The useful life of each of the Company's property and equipment and software is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A change in the estimated useful life of any item of property and equipment and software would impact the recorded costs and expenses and decrease non-current assets.

The sensitivity of depreciation and amortization expense to changes in estimated useful life of property and equipment and software as at December 31 follows:

	2020	2019
Increase by 10%	9 million	10 million
Decrease by 10%	11 million	12 million

Measurement of retirement benefit obligation (Note 14)

The determination of the Company's retirement benefit obligation at each reporting period is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

In determining the appropriate discount rate, the Company considers the market yield of government bonds with terms to maturity approximating the terms of the retirement benefit obligation as well as the expected rate of return on plan assets based on the average historical earnings of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. Other key assumptions for retirement liability are based in part on current market conditions.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect retirement obligations and employee benefits.

The sensitivity analyses for the significant actuarial assumptions are disclosed in Note 14.

Determination of incremental borrowing rate (Note 21)

The lease payments are discounted using the Company's incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

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

The Company's incremental borrowing rates applied to the lease liabilities range from 7.29% to 7.46%. The rate was determined in reference to the prevailing bank market rates applicable to the leased properties with similar terms and conditions.

The Company has assessed that it is impracticable to present the sensitivities arising from the impact of upward/downward changes in the discount rates used in the determination of lease liabilities without undue efforts; as such, the sensitivity analysis was no longer presented.

24.2 Critical accounting judgments

Determination of the lease term (Note 21)

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The Company's existing contracts as at December 31, 2020 and 2019 have enforceable extension option provisions.

Classification of HTM financial assets (Note 5)

The Company follows the guidance of PAS 39, *Financial Instruments: Recognition and measurement*, in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM financial assets. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class to AFS financial assets. The investments will therefore be measured at fair value and not at amortized cost.

Management believes, based on its assessment, that its intention and ability to hold such investments to maturity remain unchanged at December 31, 2020 and 2019.

Impairment of AFS financial assets (Note 6)

The Company follows the guidance of PAS 39 to determine when an AFS financial asset is impaired. This determination requires significant judgment.

For debt securities, the Company first assesses at each reporting date whether an objective evidence of impairment exists. A financial asset or group of financial asset is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For equity investments, the determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than twelve (12) months. In 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 cost; and the financial health and near-term business outlook of the issuer, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Management believes, based on its assessment, that AFS financial assets are fully recoverable and not considered impaired at December 31, 2020 and 2019.

Impairment of other financial assets and reinsurance recoverable on unpaid losses (Notes 3, 4, 7 and 8)

The Company reviews other financial assets and reinsurance recoverable on unpaid losses at each reporting date to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in determining the amount and timing of future cash flows when determining the level of allowance required. The amount and timing of recorded expenses for any period would differ if the Company made different judgment. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Other financial assets consist of insurance receivables, other receivables and accrued investment income.

The allowance for impairment recognized for other financial assets as at December 31 follows:

	Notes	2020	2019
Insurance receivable	3	78,665	48,989
Other receivables	7	480	480
		79,145	49,469

Management believes, based on its assessment, that the net carrying value of other financial assets are fully recoverable and not considered impaired at December 31, 2020 and 2019.

Recoverability of DIT assets (Note 17)

Management reviews at each reporting date the carrying amounts of DIT assets. The carrying amount of DIT assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the DIT assets will be applied.

Management believes that sufficient taxable profit will be generated to allow all or part of the DIT assets to be utilized.

DIT assets, net, as at December 31, 2020 amount to P354 million (2019 - P307 million).

Impairment of non-financial assets (Notes 9 and 10)

The Company's property and equipment and software are carried at cost less accumulated depreciation and amortization and impairment losses, if any. The carrying value is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those judgments could have a significant effect on the carrying value of property and equipment and the amount and timing of recorded provision for any period.

As at December 31, 2020 and 2019, management believes, based on its assessment, that there are no indications of impairment or changes in circumstances indicating that the carrying value of its property and equipment and software may not be recoverable.

The carrying value of the Company's property and equipment amounts to P142 million as at December 31, 2020 (2019 - P174 million) while the carrying value of the software amounts to P21 million as at December 31, 2020 (2019 - P7 million).

25 Insurance risk, financial risk and capital management

25.1 Insurance risk

Nature of risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk that the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency and severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Monitoring and controlling

The Company manages the insurance risk through its underwriting strategy and by entering into reinsurance arrangements. However, the risk is also dependent on the policyholders' rights to pay premiums, or to terminate the contract completely. The Company's underwriting guidelines provide the framework for the selection and classification of risks that are acceptable for coverage and ensure that the appropriate premium is charged in accordance with the risk class that they belong to.

Acceptances of insurable risks are limited to personnel with approved limits of authority and are set against the standards specified in the underwriting manuals of the Company.

Retention limits are specified for all classes as agreed with the reinsurers that form part of the reinsurance treaty agreements. Appropriate reinsurance program is in place to protect the Company from serious losses and catastrophic occurrences that may affect large number of insured risks. The Company deals only with reinsurers that have met its criteria. Furthermore, the risks of defaults by reinsurers are mitigated as most of the reinsurance placements are done only on the Company's approved list of reinsurers.

The Company decides on its retention, or the absolute amount it is ready to assume from one event. The retention amount is a function of capital, experience, actuarial study and risk appetite or aversion.

The retention amount is for the best type of risk and is further downgraded when the account is less than standard. In excess of its retention, the Company arranges reinsurance with reputable and financially sound insurance/reinsurance companies.

Frequency and severity of claims

The quality of the risks being insured by the Company is the main factor that would influence the frequency and severity of claims. With the diversity of the portfolio, the number and magnitude of losses differ a lot depending on the class of business. Risks with coverage for typhoon and flood perils, and changes in the climatic conditions could give rise to more frequent and severe losses.

Occurrences of any of the insured perils are unpredictable and with severity that can be ascertained only after the events have taken place. With the current size of the portfolio wherein the number of similar risks is not yet large enough, the expected outcome could vary considerably from year to year. Large number of insured risks in certain areas could be affected by any of the catastrophic events, such as earthquake, typhoon and flood.

For event losses like earthquake, typhoon and flood that can involve several retained amounts, the Company is secured by a reinsurance protection based on the Company's estimated maximum loss exposure. The same adheres to the IC's minimum catastrophe cover requirements. Severity is managed through loss prevention programs while frequency is managed through correct pricing.

Summarized below are the aggregate exposures (gross and net of reinsurance) of the Company to earthquake, typhoon and flood arising from the insurance contracts as at December 31:

	2020					
	Earthquake		Typhoon		Flood	
Zones	Gross	Retention	Gross	Retention	Gross	Retention
1	14,915,182	8,933,381	50,821,124	19,203,363	50,659,039	19,045,448
2	40,285,864	14,615,021	200,147,212	36,838,038	199,674,568	36,475,201
3	13,105,008	966,658	283,371,933	99,025,691	277,270,400	93,741,450
4	2,546,025	492,295	459,721,334	69,414,201	456,097,348	66,337,999
5	206,112,153	87,370,810	7,565,391	6,182,551	7,344,607	5,982,967
6	458,908,484	70,041,934	8,900,939	5,112,576	8,657,559	4,869,196
7	129,922,770	36,461,891	-	-	-	-
8	93,097,176	10,998,239	-	-	-	-
9	30,846,697	12,190,415	-	-	-	-
10	31,237,300	1,964,659	-	-	-	-
	1,020,976,659	**244,035,303**	**1,010,527,933**	**235,776,420**	**999,703,521**	**226,452,261**

	2019					
	Earthquake		Typhoon		Flood	
Zones	Gross	Retention	Gross	Retention	Gross	Retention
1	11,163,718	8,032,536	41,516,319	18,232,285	41,308,734	18,028,798
2	40,408,714	15,668,343	247,040,079	38,294,189	246,395,190	37,773,075
3	11,103,548	616,149	308,120,524	105,214,482	301,925,560	99,853,763
4	1,829,648	513,889	428,099,139	71,103,159	424,412,341	67,867,639
5	237,516,442	93,473,599	7,250,602	5,920,449	7,095,527	5,786,574
6	429,137,375	72,038,951	7,704,462	4,962,832	7,520,924	4,779,295
7	174,713,810	37,594,013	-	-	-	-
8	96,342,287	11,007,174	-	-	-	-
9	21,537,075	11,385,614	-	-	-	-
10	26,870,223	1,294,901	-	-	-	-
	1,050,622,840	**251,625,169**	**1,039,731,125**	**243,727,396**	**1,028,658,276**	**234,089,144**

Zones pertain to geographical locations prescribed by the IC. The Company addresses any concentration risk in certain geographical locations by having an adequate reinsurance protection.

Source of uncertainty in the estimation of future claim payments

The liability for insurance contracts comprises IBNR provision, provision for reported claims not yet paid and provision for unexpired risk at the reporting date.

The IBNR provision is based on actuarial assumptions using actual historical claims and loss (Note 15).

Provisions for reported claims not yet paid are recognized when a claimable event occurs and reported to the Company. Loss reserves or estimates are recorded in the system upon registration of the claim based on the recommendation of accredited insurance loss adjusters. The outstanding claims are reviewed regularly, and loss reserves are adjusted if there is information that will justify the change or following the advice received from the assigned adjuster or evaluator as validated by claims personnel of the Company.

Provision for unexpired risk is based on the calculated best estimate of future claims and expenses for all classes of business, with MfAD. This best estimate relates to expected future claims payments and related expenses to be incurred after the valuation date, arising from future events.

25.2 Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, insurance and reinsurance assets and liabilities. In particular, the key financial risk is that financial assets are not sufficient to fund obligations arising from its insurance contracts. Components of this financial risk include market risk, credit risk and liquidity risk.

The Company maintains a high level of liquid assets for the adequate and prompt servicing of its insurance liabilities. The Company's investible funds are managed by BPI's AMTC. The investments are governed by the investment guidelines approved by the BOD and in compliance with the guidelines of the IC. The funds are generally in medium and long-term instruments, balancing the market risks against the desired yields, with provision for liquidity as defined by the Company. The working capital funds are invested in short-term instruments with BPI.

The Company's senior management approves the credit terms to be extended to intermediaries and reinsurance clients, evaluates the quality of receivables and the level of impairment, and decides the cancellation rules and credit and collection policies.

Internal controls are well-defined and compliance of the Company to such is closely monitored.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: market prices (price risk), foreign exchange rates (foreign exchange risk) and market interest rates (interest rate risk).

(i) Price risk

The Company’s price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally AFS equity securities and investments in mutual funds (Note 6).

To minimize the price risk exposure in equity securities and investments in mutual funds, the Company has put in place a loss cut policy in which the fund manager shall provide the Company’s BOD an update and recommendation should the market value of an investment fall to less than 85% of the acquisition cost of any share.

Details of the Company’s AFS equity securities and investments in mutual funds at December 31 follow:

	2020	2019
Equity securities		
Listed shares	806,877	798,448
Unlisted shares	8,635	9,534
Investment in mutual funds	189,097	109,343
	1,004,609	917,325

The analysis below presents the impact of reasonable possible movements in the Philippine Stock Exchange Index (PSEi) of existing investments in listed shares and the net asset value per share (NAVps) of mutual funds on the Company’s fair value reserve as at December 31:

	2020		2019	
	Assumed volatility	Impact on equity	Assumed volatility	Impact on equity
PSEi of listed equity shares	+25%	201,719	+25%	199,612
	-25%	(201,719)	-25%	(199,612)
NAVps of mutual funds	+2%	3,782	+2%	2,187
	-2%	(3,782)	-2%	(2,187)

The assumed volatility in the PSEi on existing investments in listed shares is based on the historical year-on-year movements of the PSEi. The assumed volatility in NAVps on existing investments in mutual funds is based on the projected movement in the first quarter of the succeeding year.

The assumed volatilities are consistent with the assumption that all the variables are held constant and all the Company’s listed equity instruments and investments in mutual funds moved according to the historical correlation with the stock index and NAVps, respectively.

The Company is not exposed to commodity price risk at December 31, 2020 and 2019.

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to both transactional and translational fluctuations in the value of its monetary assets and liabilities due to exchange rate movements of foreign currencies.

Transactional exposure arises from income earned and expenses paid in currencies other than the Company's functional currency (Philippine peso). Translational exposure arises on the conversion of the foreign currency denominated assets and liabilities into Philippine peso.

The insurance business of the Company is mostly denominated in local currency. Currency exposures arise from the holding of monetary assets and liabilities denominated in foreign currencies, mainly bank balances and deposits with financial institutions, insurance receivables, debt securities and due to reinsurers and ceding companies that are denominated in US dollar ("USD") or Japanese yen ("JPY"). The Company minimizes its exposure to any significant foreign exchange rate risk by generally investing in assets denominated in the same currency as the insurance and reinsurance liabilities.

The details of the Company's foreign currency-denominated monetary assets and liabilities as at December 31 are as follows:

	2020		2019	
	USD	JPY	USD	JPY
Assets				
Cash and cash equivalents				
Cash in banks	3,327	64,851	5,850	33,002
Time deposits	7,583	-	569	-
Insurance receivables	6,985	82,014	8,316	71,532
AFS financial assets	486	-	-	-
	18,381	146,865	14,735	104,534
Liabilities				
Due to reinsurers and ceding companies	19,435	35,338	15,079	43,313
Net foreign currency-denominated (liabilities) assets	(1,054)	111,527	(344)	61,221
Philippine peso equivalent	(50,618)	51,670	(17,420)	28,315

The exchange rates of one unit of USD and JPY into Philippine Peso as at December 31 are as follows:

	2020	2019
USD	48.023	50.64
JPY	0.4633	0.4625

Unrealized foreign exchange loss, net, recognized in the statement of income for the year ended December 31, 2020 amounts to P48 million (2019 - unrealized foreign exchange gain, net, of P34 million). Realized foreign exchange gain, net, in 2020 amounts to P27 million (2019 - realized foreign exchange loss, net of P43 million). These foreign exchange gains and losses are presented as part of Other expense (income), net, in the statement of income (Note 16).

The table below presents the impact of possible movements of Philippine Peso against the USD and JPY, with all other variables held constant, on the Company's income after tax for the years ended December 31. There is no impact on the Company's equity other than those already affecting income after tax.

	2020		2019	
	Change in exchange rate	Impact on income after tax	Change in exchange rate	Impact on income after tax
USD	+1%	354	+1%	122
	-1%	(354)	-1%	(122)
JPY	+9%	(3,255)	+9%	(1,784)
	-9%	3,255	-9%	1,784

The reasonably possible movement in foreign currency exchange rates is based on projection by the Company's investment manager using year-on-year historical experience.

(iii) Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating-rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk. The Company is not exposed to cash flow interest rate risk as none of its financial assets or liabilities have floating interest rates. The Company's exposure is only on fair value interest rate risk in respect of government debt securities and corporate bonds classified as AFS financial assets.

Interest rate risk is managed by targeting a desired return, which is reviewed periodically, based on the Company's long-term view on interest rates. Strict investment guidelines, as approved by the AMTC and the IC, are in place and reviewed regularly to provide the general direction for the investment funds and to monitor the risk undertaken.

The Company's policy is to pursue a stable return on investment in order to maintain solid solvency. Priority is given to safety and liquidity as these assets are mainly for payment of insurance claims.

Details of the Company's debt securities subject to interest rate risk at December 31 follow:

	2020	2019
AFS financial assets		
Fixed-term treasury notes	4,439,939	3,816,758
US dollar treasury bonds	23,326	-
	4,463,265	3,816,758

On the assumption that the interest rate had increased/decreased by 100 basis points at December 31, 2020, fair value reserve is expected to increase by P105 million (2019 - P120 million) or decrease by P35 million (2019 - P45 million) as a result of changes in the fair value of AFS debt financial assets. The assumptions are based on the reasonable possible shift of interest rate as determined by management based on historical year-on-year movements of similar instruments.

To minimize the interest rate risk, the Company does not pre-terminate its investments before their due date. It manages its working capital to ensure that funds are available when a liability becomes due.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk represents the loss that would be recognized if counterparties to insurance, reinsurance and investment transactions are unable or unwilling to fulfill their payment obligations.

(i) Maximum exposure to credit risk

Credit risk exposures as at December 31 are as follows:

	2020	2019
Cash and cash equivalents, excluding cash on hand	1,173,861	1,172,621
Insurance receivable, gross	2,543,711	2,574,486
Reinsurance recoverable on unpaid losses	3,057,246	2,471,449
HTM financial assets	440,866	457,823
AFS financial assets, excluding equity securities	4,652,362	3,926,101
Other receivables, gross		
Mortgage loans - employees	1,774	1,926
Accounts receivable		
Trade	3,032	2,681
Non-trade	44,739	37,924
Accrued investment income	29,522	40,502
Rental deposits (within Other assets, net)	29,499	30,644
	11,976,612	10,716,157

Allowance for impairment on insurance receivable and other receivables as at December 31, 2020 aggregates P79 million (2019 - P49 million).

(ii) Credit risk management, risk limit and mitigation policies

Insurance and reinsurance receivable

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or group of counterparty, and to geographical and industry segments. Credit evaluations are performed on all policyholders, brokers, agents, reinsurers, financial institutions and other counterparties.

Reinsurance is used to manage insurance risks. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

The Company restricts its exposure to credit losses from its reinsurance business by entering into master netting arrangements with counterparties. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts (asset position) is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Company accredits its reinsurers and sets a limit as to what can be reinsured with such reinsurance company. The minimum rating allowed for a reinsurance counterparty is A - based on Standard & Poor's ("S&P") rating. The reinsurance treaties and the accreditation of reinsurers require the approval of the Company's BOD.

The credit risk arising from insurance operations is closely monitored by the Credit and Control Unit of the Sales and Marketing Division on an ongoing basis.

AFS debt instruments, HTM financial assets and cash in banks, including accrued investment income

One of the Company's primary investment objectives is to seek the preservation of its portfolio by mitigating the credit risk which is the risk of loss due to failure of the issuer to make good on its obligation when maturity becomes due. This is mitigated by investing in safe securities and diversifying its investment portfolio so that the failure of any one issuer would not materially affect the cash flow of the Company. Within the guidelines provided by the IC, BPI-AMTC ensures that the Company invests in allowable categories of investment instruments and within the provided limitation as to the percentage of the portfolio that can be invested in a certain category. Presently, the Company has substantial investments in government securities.

For time deposits and debt securities, external ratings such as those provided by Philippine Rating Services Corporation ("Philratings") and S&P or their equivalents are used by the Company for managing credit risk exposures. Investments in these deposits and securities are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. Cash in banks are deposited with universal, commercial and thrift banks.

Mortgage loans

In measuring credit risk of mortgage loans, the Company considers three components: (i) the probability of default by the borrower on its contractual obligations; (ii) current exposures to the borrower and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the BOD.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.

Other receivables

The Company's other receivables consist primarily of employees' salary and car facility loans as well as receivable from agents and credit card companies for the unremitted premiums collected.

Exposure to credit risk is low considering that the employees' loan is amortized monthly through salary deduction while agents' accounts are deducted from the commissions due to them. Exposure to credit risk on receivables from credit card companies is also low given that these companies have a good credit standing with no history of default.

(iii) Credit ratings of cash and cash equivalents (excluding cash-on-hand), HTM and AFS financial assets (excluding equity securities)

The Company deposits its cash balance in universal, commercial and thrift banks to minimize credit risk exposure. Amounts deposited in these banks as at December 31 are as follows:

	2020	2019
Universal banks	1,110,511	897,023
Commercial banks	59,332	162,260
Thrift banks	4,018	113,338
	1,173,861	1,172,621

The table below presents the ratings of debt securities at December 31:

	HTM financial assets	AFS financial assets Fixed-term debt securities	USD treasury bonds	Mutual funds	Total
2020					
S&P					
BBB	314,766	3,744,532	23,326	-	4,082,624
BBB-	-	50,132	-	-	50,132
Phil Ratings					
AAA	107,100	349,442	-	-	456,542
Aa+ to Aa-	-	9,827	-	-	9,827
Crisp					
AAA	19,000	-	-	-	19,000
Moody's					
BBB-	-	50,667	-	-	50,667
BBB	-	60,589	-	-	60,589
Fitch					
BBB	-	75,312	-	-	75,312
BB+	-	99,438	-	-	99,438
Unrated	-	-	-	189,097	189 097
	440,866	4,439,939	23,326	189,097	5,093,228
2019					
S&P					
BBB	304,723	3,389,794	-	-	3,694,517
BBB-	-	35,005	-	-	35,005
Phil Ratings					
AAA	134,100	382,180	-	-	516,280
AA	-	9,779	-	-	9,779
Crisp					
AAA	19,000	-	-	-	19,000
Unrated	-	-	-	109,343	109,343
	457,823	3,816,758	-	109,343	4,383,924

(iv) Insurance and other receivables and accrued investment income

Insurance and other receivables and investment income due and accrued at December 31 are summarized as follows:

2020	Neither past due nor impaired	Past due but not impaired: 91-180 days	181-360 days	More than 360 days	Impaired	Gross carrying amount
Insurance receivable	2,228,743	148,848	67,389	20,066	78,665	2,543,711
Reinsurance recoverable on unpaid losses	984,209	115,425	350,753	1,606,859	-	3,057,246
Mortgage loans - employees	1,774	-	-	-	-	1,774
Accounts receivable						
Trade	1,881	1,105	-	46	-	3,032
Non-trade	8,045	5,917	9,480	20,817	480	44,739
Accrued investment income	29,522	-	-	-	-	29,522
	3,254,174	271,295	427,622	1,647,788	79,145	5,680,024

2019	Neither past due nor impaired	Past due but not impaired: 91-180 days	181-360 days	More than 360 days	Impaired	Gross carrying amount
Insurance receivable	2,145,024	253,124	96,407	30,942	48,989	2,574,486
Reinsurance recoverable on unpaid losses	780,251	54,208	196,613	1,440,377	-	2,471,449
Mortgage loans - employees	1,926	-	-	-	-	1,926
Accounts receivable						
Trade	2,633	-	2	45	-	2,681
Non-trade	8,702	4,836	6,335	17,572	480	37,924
Accrued investment income	40,502	-	-	-	-	40,502
	2,979,038	312,168	299,357	1,488,936	49,469	5,128,968

The Company maintains a normal credit term of 90 days for insurance balances receivable and considers past due as those outstanding beyond 90 days.

The credit risk arising from mortgage loans is not significant as this is covered by collateral. For accounts receivable - non-trade, this will be deducted by the Company from the salary of the employees.

Majority of investment income due and accrued come from government securities issued and guaranteed by the Philippine government.

Further information on the impairment allowance is provided in Notes 3 and 7.

(v) Refundable deposits (within Other assets, net)

Security deposits were made in connection with the lease arrangements with certain lessors. The Company did not have history of losses arising from the inability of the lessors to refund their obligations. The credit risk is deemed minimal as the amount is fully performing as at reporting date.

(vi) Repossessed or foreclosed collateral

As at December 31, 2020 and 2019, the Company has possession of collaterals held as security for mortgage and other loans with carrying amount of P70 thousand (Note 11). The related foreclosed collaterals have aggregate fair value of P552 thousand.

Repossessed properties are sold as soon as practicable and are classified as assets held-for-sale included in Other assets in the statement of financial position.

(vii) Concentrations of risks

The Company's main credit exposure at their carrying amounts at December 31 as categorized by industry sectors follows:

2020	Financial institutions	Real estate	Others	Less allowance	Total
Cash and cash equivalents, excluding cash on hand	1,173,861	-	-	-	1,173,861
Insurance balances receivable, net	2,359,216	-	184,495	78,665	2,465,046
Reinsurance recoverable on unpaid losses	3,057,246	-	-	-	3,057,246
HTM financial assets	-	-	440,866	-	440,866
AFS financial assets, excluding equity securities	189,097	-	4,463,265	-	4,652,362
Other receivables, net					
Mortgage loans - employees	-	-	1,774	-	1,774
Accounts receivable					
Trade	2,382	-	650	-	3,032
Non-trade	-	-	44,739	480	44,259
Accrued investment income	-	-	29,522	-	29,522
Rental deposits (within Other assets, net)	1,650		27,849	-	29,499
	6,783,452	-	5,193,160	79,145	11,897,467

2019	Financial institutions	Real estate	Others	Less allowance	Total
Cash and cash equivalents, excluding cash on hand	1,172,621	-	-	-	1,172,621
Insurance balances receivable, net	2,422,876	-	151,610	48,989	2,525,497
Reinsurance recoverable on unpaid losses	2,471,449	-	-	-	2,471,449
HTM financial assets	457,823	-	-	-	457,823
AFS financial assets, excluding equity securities	-	-	3,926,101	-	3,926,101
Other receivables, net					
Mortgage loans - employees	-	-	1,926	-	1,926
Accounts receivable					
Trade	-	-	2,681	-	2,681
Non-trade	-	-	37,924	480	37,444
Accrued investment income	40,502	-	-	-	40,502
Rental deposits (within Other assets, net)	1,630	-	29,014	-	30,644
	6,566,901	-	4,149,256	49,469	10,666,688

(c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations when due. The Company manages the risk by close monitoring of cash flows to ensure that the operation maintains optimum levels of liquidity at all times sufficient to meet contractual obligations as and when they fall due.

It is also the Company's policy to maintain adequate liquidity to meet its cash flow requirements. Accordingly, each portfolio is structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities is consistent with the cash requirements in order to avoid the forced sale of securities prior to maturity.

The table summarizes the expected undiscounted cash flows of financial obligations. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

	2020	2019
Due to reinsurers and ceding companies	1,796,941	1,930,846
Reserve for outstanding losses	4,219,205	3,455,650
Funds held for reinsurers	297,964	324,669
Accounts payable and accrued expenses		
Cash collateral	266,315	211,582
Accounts payable, excluding payroll liabilities to government agencies	299,967	160,225
Lease liabilities, including future interest	110,843	121,769
Accruals and provision, excluding provision for employee benefits	146,381	99,256
	7,137,616	6,303,997

Due to reinsurers and ceding companies are settled within the premium warranty period as stipulated in the insurance contract which normally covers one year.

Accounts payable and accrued expenses are expected to be settled within one year.

Cash collateral covers construction bonds expected to be completed within one year.

Valuation and maturity of reserve for outstanding losses are management's best estimate based on historical experience and statistical methods. Reserve for outstanding losses are paid within one year upon notification and large losses are generally covered by reinsurance.

Funds held for reinsurers are used to settle the Company's share in the net results obtained from the monthly production report. Amounts are expected to be settled within one year.

The lease liabilities represent both current and non-current lease commitments. About P52 million (2019 - P64 million) of the total lease liabilities are determined to be current and are expected to be settled in the next 12 months.

25.3 Fair value determination

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The primary source of input parameters is Bloomberg. For unquoted equity instruments, reference is also made to the prior year's pricing which is assumed to be a reasonable approximation of fair value given the limited transactions and circumstances of the instruments. This level includes unlisted shares and HTM financial assets with fair values disclosed in the notes to financial statements.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The following table presents the fair value hierarchy of the Company's AFS financial assets (carried at fair value):

	Level 1	Level 2	Total
As at December 31, 2020			
AFS financial assets			
Debt securities	3,744,532	695,407	4,439,939
Equity securities	806,877	8,635	815,512
Investment in mutual funds	189,097	-	189,097
	4,740,506	704,042	5,444,548
As at December 31, 2019			
AFS financial assets			
Debt securities	3,334,524	482,234	3,816,758
Equity securities	798,448	9,534	807,982
Investment in mutual funds	109,343	-	109,343
	4,242,315	491,768	4,734,083

There were no transfers between Level 1 and Level 2 hierarchy as at and for the years ended December 31, 2020 and 2019.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, the Company considers factors specific to the asset or liability. The following table presents the fair value of HTM financial assets not carried at fair value but for which the fair value is disclosed as at December 31:

	2020	2019
HTM financial assets, at Level 1 hierarchy	337,900	323,008
HTM financial assets, at Level 2 hierarchy	126,100	152,996
	464,000	476,004

Fair value of HTM financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

The carrying values of other financial assets and financial liabilities approximate their respective fair values at reporting date due to their short-term maturities.

25.4 Capital management

The Company's objectives when managing capital (total equity as shown in the statement of financial position) are:

- to maintain sufficient capital to meet the regulatory requirements as prescribed under the existing regulations; and,
- to maintain a prudent buffer of financial resources to protect the Company's economic viability and finance new growth opportunities.

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, fixed capitalization requirements, risk-based capital requirements). Section 201 of the amended Code provides that no domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements of the amended Code and except for the profits attested in a sworn statement to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired capital as follows.

(a) The entire paid-up capital stock;
(b) The solvency requirements defined by the amended Insurance Code;
(c) The legal reserve fund; and
(d) A sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

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

With the issuance of the IC of CL 2016-69, mandating the implementation of new Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework effective January 1, 2018, the Company is no longer required to compute and submit the margin of solvency.

Consolidated compliance framework

The Consolidated Compliance Framework prescribes the capital requirements aimed at assuring a secure level of stability for the life and non-life insurance industries. Established by the IC under Insurance Memorandum Circular ("IMC") No. 10-2006, this framework integrates the compliance standards for the fixed capitalization and RBC2 framework. The former was issued to secure the solvency position of insurers and to adequately protect the insuring public. The latter was issued to establish a more efficient capital structure attuned to the risks carried by individual insurers and in step with the government's prudential regulatory measures.

(a) Fixed capitalization requirements

Under Section 194 of the amended Insurance Code, domestic insurance companies' required minimum statutory net worth is as follows:

	Amount
By June 30, 2013	P250 million
By December 31, 2016	550 million
By December 31, 2019	900 million
By December 31, 2022	1.3 billion

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

On May 15, 2020, the IC issued CL No. 2020-60, which provides regulatory relief on net worth requirements where all insurance companies already in compliance with the net worth requirements under Section 194 of the amended Code before the declaration of the enhanced community quarantine affected by the crisis are relieved from the quarterly compliance of net worth requirements of P900 million. Provided however that for all insurance companies who are not compliant with the net worth requirements prescribed under the amended Code before the declaration of the enhanced community quarantine, they are required to put up additional funds to cover the deficiency before availing the relief.

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

(b) RBC2 Framework

On December 28, 2016, the IC issued CL No. 2016-68 which provides for the Amended RBC 2 Framework effective January 1, 2017. The CL provides that the RBC ratio of a non-life insurance company is calculated by dividing the total available capital by the RBC requirement. Total available capital is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and deductions prescribed by the IC.

The non-life RBC requirement considered the following components set by the IC:

(i) credit risk capital charge;
(ii) insurance risk capital charge;
(iii) market risk capital charge for equities;
(iv) market risk capital charge for other than equities;
(v) operational risk capital charge; and
(vi) catastrophe risk capital charge.

The minimum RBC ratio is to be established at 100%. All non-life insurance companies are required to maintain the minimum RBC ratio and not fail the trend test. Failure to meet the minimum RBC ratio will trigger regulatory intervention by the IC.

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

In addition to the regulatory relief on net worth requirements prescribed by the IC though CL No. 2020-60 issued on May 15, 2020, the IC has provided further guidelines on the implementation of the Amended RBC framework for the calendar year 2020 in order for insurance companies to better utilize their capital requirements while they continue to work on their recovery from the implications of the pandemic. Applying the revised regulatory intervention on the RBC ratio, no regulatory action is needed for the Company as its RBC ratio as at December 31, 2019, before the declaration of the enhanced community quarantine is over 100%.

The Company is compliant with the requirements of the RBC2 framework and will not require capital call from shareholders as at December 31, 2020 and 2019.

The following table shows how the RBC ratio as at December 31 was determined by the Company:

	2020	2019
Total available capital	3,739,835	3,184,500
RBC requirement	1,075,771	1,055,313
RBC ratio	348%	302%

26 Summary of significant accounting policies

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

26.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of AFS financial assets.

The preparation of financial statements in conformity with PFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 24.

26.2 Changes in accounting policy and disclosures

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

The Company has adopted the following amendments to existing standards and the Conceptual Framework effective January 1, 2020.

- Amendments to PAS 1, *‘Presentation of Financial Statements’*, and PAS 8, *‘Accounting Policies, Changes in Accounting Estimates and Errors’*

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

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

- *Amendment to PFRS 16, "Leases"*

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

  The adoption of the above amendment did not have a material impact on the Company's financial statements as it was not provided with any rent concessions during the year ended December 31, 2020.

- Adoption of the Revised Conceptual Framework for Financial Reporting

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

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

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

(b) New and amended standards not yet effective and not yet adopted by the Company

- *PFRS 17, 'Insurance Contracts' (effective January 1, 2025)*

  PFRS 17 was issued in May 2018 as replacement for PFRS 4, *"Insurance Contracts"*. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9, *"Financial instruments."* An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

  On March 17, 2020, the IASB has decided to further defer the effective date of the standard to annual reporting periods beginning on or after January 1, 2023. Taking into consideration the implications of the pandemic, the IC recognizes that the insurance industry has to realign its priority programs and focus on modifying its business operations under a new normal. The IC sees the need to support the insurance industry and hence, it delays full implementation of the standard to January 1, 2025, two (2) years after IASB's implementation in 2023.

  The IC, in coordination with Philippine Insurers and Reinsurers Association, is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach.

- *PFRS 9 and its interaction with PFRS 4 'Insurance Contracts'.*

  PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39 with a single model that has three classification categories: amortized cost, fair value through OCI, and fair value through profit or loss ("FVTPL"). Classification under PFRS 9 is driven by the entity's business model for managing and holding the financial assets and whether the contractual characteristics of the financial assets represent solely payments of principal and interest. Investments in equity instruments are required to be measured at FVTPL with the irrevocable option at inception to present changes in fair value in OCI. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at FVTPL. For such liabilities, changes in fair value arising from changes in the entity's own credit risk are presented separately in OCI.

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

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

  In September 2016, 'Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)' was issued, which provides optional relief to insurers meeting certain criteria from any adverse impact that may arise from the different effective dates of PFRS 9 and PFRS 17. The two options for entities that issue contracts within the scope of PFRS 4 permit an entity to either:

  (1) reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets; referred to as the 'overlay approach', or
  (2) for entities whose predominant activity is issuing contracts within the scope of PFRS 4, defer the application of PFRS 9 entirely; referred to as the 'deferral approach'.

  <u>Deferral of adoption of PFRS 9</u>

  The Company has elected to apply the deferral option since it satisfies the following criteria:
  - The Company has not previously applied any versions of PFRS 9; and,
  - The Company's activities are predominantly connected with insurance at annual reporting date that immediately precedes April 1, 2016, i.e., December 31, 2015, based on the eligibility assessment that:
    - the carrying amount of liabilities arising from contracts within the scope of PFRS 4 is greater than 90% of the total carrying amount of all its liabilities; or,
    - the carrying amount of liabilities arising from contracts within the scope of PFRS 4 is less than 90% and the total carrying amount of liabilities connected with insurance is equal to or less than 90% but greater than 80% of the total carrying amount of all its liabilities.

  The Company's activities were predominantly connected with insurance activities at December 31, 2015 at which date the percentage of the total carrying amount of the Company's liabilities connected with insurance activities was more than 91%. There has been no significant change in the Company's activities subsequent to this date. The Company has determined that it meets the criteria set out in Amendments to PFRS 4 for temporary exemption from applying PFRS 9 on January 1, 2019 and continues to defer the application until the Company adopts PFRS 17.

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

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

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

The fair value of financial instruments at December 31 classified between those that meet and those that fail the SPPI criteria are described as follow:

2020	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
Cash and cash equivalents	1,181,518	-	1,181,518
HTM financial assets	464,000	-	464,000
AFS financial assets	4,463,265	1,004,609	5,467,874
Mortgage loans	1,774	-	1,774
Accounts receivable			
Trade	3,032	-	3,032
Non-trade	44,739	-	44,739
Accrued investment income	29,522	-	29,522
Rental deposits (within Other assets, net)	29,499	-	29,499
	6,217,349	1,004,609	7,221,958

2019	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
Cash and cash equivalents	1,178,729	-	1,178,729
HTM financial assets	476,004	-	476,004
AFS financial assets	3,816,758	917,325	4,734,083
Mortgage loans	1,926	-	1,926
Accounts receivable			
Trade	2,681	-	2,681
Non-trade	37,924	-	37,924
Accrued investment income	40,502	-	40,502
Rental deposits (within Other assets, net)	30,644	-	30,644
	5,585,168	917,325	6,502,493

The movements in fair value for the years ended December 31 for these financial assets are as follows:

2020	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
Cash and cash equivalents	-	-	-
HTM financial assets	(23,114)	-	(23,114)
AFS financial assets	(192,893)	-	(192,893)
Mortgage loans	-	-	-
Accounts receivable			
Trade	-	-	-
Non-trade	-	-	-
Accrued investment income	-	-	-
	(216,007)	-	(216,007)

2019	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
Cash and cash equivalents	-	-	-
HTM financial assets	(18,181)	-	(18,181)
AFS financial assets	(358,146)	-	(358,146)
Mortgage loans	-	-	-
Accounts receivable	-	-	-
Trade	-	-	-
Non-trade	-	-	-
Accrued investment income	-	-	-
	(376,327)	-	(376,327)

For financial assets as at December 31 that meet the SPPI criteria, the current carrying values measured in accordance with PAS 39 are analyzed in the following table by credit rating:

	Neither past due nor impaired					
2020	High	Medium	Low	Past due	Impaired	Total
Cash and cash equivalents	1,181,518	-	-	-	-	1,181,518
HTM financial assets	440,866	-	-	-	-	440,866
AFS financial assets	4,463,265	-	-	-	-	4,463,265
Mortgage loans	1,774	-	-	-	-	1,774
Accounts receivable						
Trade	1,881	-	-	1,151	-	3,032
Non-trade	8,045	-	-	36,214	480	44,739
Accrued investment income	29,522	-	-	-	-	29,522
Refundable deposits	29,499	-	-	-	-	29,499
	6,156,370	-	-	37,365	480	6,194,215

	Neither past due nor impaired					
2019	High	Medium	Low	Past due	Impaired	Total
Cash and cash equivalents	1,178,729	-	-	-	-	1,178,729
HTM financial assets	457,823	-	-	-	-	457,823
AFS financial assets	3,816,758	-	-	-	-	3,816,758
Mortgage loans	1,926	-	-			1,926
Accounts receivable						
Trade	2,633	-	-	48	-	2,681
Non-trade	8,702	-	-	28,742	480	37,924
Accrued investment income	40,502	-	-	-	-	40,502
Refundable deposits	30,644	-	-	-	-	30,644
	5,537,717	-	-	28,790	480	5,566,987

The following amendments to existing standards are not mandatory for the December 31, 2020 reporting period and have not been early adopted by the Company:

- Amendments to PAS 1, *'Presentation of Financial Statements'*

  The amendments to PAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

- PAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'*

  The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- Annual Improvements to PFRS Standards 2018-2020

  The following improvements were finalized in May 2020:
  i. PFRS 9, *'Financial Instruments'*, clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  ii. PFRS 16, *'Leases'*, amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The adoption of the above amendments is not expected to have a material impact on the financial statements of the Company.

26.3 Financial assets

26.3.1 Classification

The Company classifies its financial assets in the following categories: (a) at financial assets at FVTPL, (b) loans and receivables, (c) HTM financial assets, and (d) AFS financial assets. Management determines the classification of its financial assets at initial recognition.

The Company has no financial assets classified at FVTPL as at December 31, 2020 and 2019.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that:

(i) are not quoted in an active market,
(ii) with no intention of being traded, and
(iii) that are not designated as AFS financial assets.

The Company's loans and receivables comprise of cash and cash equivalents (Note 2), insurance receivable (Note 3), reinsurance recoverable on unpaid losses (Note 4), other receivables (Note 7), accrued investment income (Note 8) and refundable deposits presented under other assets, net (Note 11).

Cash and cash equivalents consist of cash on hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition and that are subject to insignificant risk of changes in value.

Insurance receivable consist of amounts due from agents and brokers, reinsurance recoverable on paid losses, due from ceding companies and funds held by ceding companies.

Reinsurance recoverable on unpaid losses represents reinsurers' share on the outstanding claims of the Company.

Other receivables consist of mortgage loans and accounts receivable from unremitted premium collections and employee loans.
Accrued investment income consists of income earned on time deposits and other investments, which are not yet received as at reporting date.

Refundable deposits pertain to the deposits paid on the leased spaces for its main office and branches.

(b) HTM financial assets

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of HTM financial assets, the entire category would be tainted and reclassified as AFS financial assets.

HTM investments are classified as such in the statement of financial position (Note 5).

(c) AFS financial assets

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

AFS financial assets are classified as such in the statement of financial position (Note 6).

26.3.2 Recognition and measurement

Regular-way purchases and sales of HTM and AFS financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognized upon origination when cash is advanced to the borrowers.

Financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition for loans and receivable, HTM financial assets and AFS financial assets.

Loans and receivables and HTM financial assets are subsequently carried at amortized cost using the effective interest rate method.

AFS financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of AFS financial assets are recognized directly in OCI, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in OCI is recognized in profit or loss. Interest on AFS financial assets calculated using the effective interest rate method is recognized in profit or loss as part of interest income. Dividends on AFS equity instruments are recognized in profit or loss as part of dividend income when the Company's right to receive payment is established.

26.3.3 Reclassification

The Company may choose to reclassify financial assets that would meet the definition of loans and receivables or HTM financial assets out of the AFS financial assets category if the Company has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as at the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made until the financial assets are sold or impaired. Effective interest rates for financial assets reclassified to loans and receivables and HTM categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

There were no financial asset reclassifications as at December 31, 2020 and 2019.

26.3.4 Derecognition

Financial assets are derecognized when the contractual right to receive the cash flows from these assets has ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Company tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

26.3.5 Impairment

Assets classified as AFS

The Company assesses at each reporting date whether there is an evidence that a security classified as AFS financial assets is impaired.

For debt securities classified as AFS financial assets, the criteria that the Company uses to determine that there is an objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- it becomes probable that the debtor will enter bankruptcy or other financial reorganization; and
- deterioration in the value of collateral.

The amount of impairment loss is measured as the difference between the financial 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 asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. Impairment loss, if any, is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss as a reduction of impairment losses for the year.

For equity investments classified as AFS financial assets, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than twelve (12) months.

The cumulative loss (difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in profit or loss) is removed from OCI and recognized in profit or loss when the asset is determined to be impaired. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. If in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to OCI.

Assets carried at amortized cost (Loans and receivables and HTM financial assets)

The Company assesses at each reporting date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine if there is an objective evidence of impairment include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Company first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial 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.

The amount of loss is measured as the difference between the financial 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 asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. If a loan or HTM financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

For purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Loans and receivables are written-off in the year determined to be uncollectible. Loans and receivables are determined to be uncollectible after exerting effort to collect the accounts and upon approval by the Company's BOD.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in profit or loss.

26.4 Financial liabilities

The Company classifies its financial liabilities as financial liabilities at amortized cost.

Financial liabilities measured at amortized cost include accounts payable, accrued expenses and other liabilities, due to reinsurers and ceding companies, funds held for reinsurers, and reserve for outstanding losses. Financial liabilities exclude retirement benefit liability and income tax payable.

Accounts payable represents the Company's outstanding liabilities to suppliers for goods and services received.

Accrued expenses and other liabilities mainly include accruals of service fees due to related parties (Note 20), commissions and employee benefits, lease liabilities, and cash collateral, which pertains to cash deposits posted primarily by building contractors as security for the bond issued by the Company.

Due to reinsurers and ceding companies are settled within the premium warranty period as stipulated in the insurance contract which normally covers one year.

Funds held for reinsurers are used to settle the Company's share in the net results obtained from the monthly production report.

Reserve for outstanding losses relates to the amount paid upon notification and large losses are generally covered by reinsurance.

Financial liabilities are initially measured at fair value plus transaction costs. It is subsequently measured at amortized cost using the effective interest rate method.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

26.5 Offsetting of financial instruments

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

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

26.6 Determination of fair value of financial instruments

The fair values of quoted investments are based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions. For all other financial instruments, fair value is determined using valuation techniques and observable market data.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances, as well as liabilities to customers, is determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

26.7 Investment in associate

An associate is an entity over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investment in an associate (included in Other assets) in the Company's financial statements is accounted for using the cost method. Under this method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated profits of the investee arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment. Investment in an associate is also subject to impairment assessment.

Investment in an associate is derecognized when the shareholding interest is sold.

26.8 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation, amortization, and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost or residual values over the estimated useful lives of the assets, as follows:

	Useful life
Condominium units	25 years
EDP equipment	3 years
Furniture, fixtures and office equipment	5 years
Leasehold improvements	5 years or lease term, whichever is shorter
Building and improvements	5 years or lease term, whichever is shorter
Transportation equipment	5 years

The asset's residual values and useful lives are reviewed, and adjusted as appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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 from derecognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

26.9 Software costs

Software costs are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of three years.

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Software costs are derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

26.10 Prepayments

Prepayments are expenses paid in advance and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Prepayments are carried at cost and are classified as current assets, except when the related goods or services are expected to be received and rendered more than twelve months after the end of the reporting period, in which case, these are classified as non-current assets.

26.11 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that have definite useful lives such as property and equipment and software cost are subject to depreciation or amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

26.12 Classification of insurance and investment contracts

The Company issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are contracts that transfer significant insurance risk. Such risks include the possibility of having to pay benefits on the occurrence of an insured event. The Company may also transfer insurance risk in insurance contracts through its reinsurance arrangements, to hedge against a greater possibility of claims occurring than expected. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

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

The Company has no outstanding investment contracts as at and for the years ended December 31, 2020 and 2019.

26.13 Insurance contracts

26.13.1 Recognition and measurement

Short-term insurance contracts of the Company include property and casualty insurance contracts.

For all these contracts, premiums are recognized as revenue (premiums earned) as follows:

Direct business

Gross premiums written are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method. The portion of the gross premiums written that relates to the unexpired periods of the policies at year-end is referred to as reserve for unearned premiums in the liability section of the statement of financial position.

Inward reinsurance business

Gross premiums written are recognized based on the date of notification by the ceding companies (generally one month after the inception date of the underlying risks underwritten) and are earned over the period of cover in accordance with the incidence of risk using the 24th method. The portion of the gross premiums written that relates to the unexpired periods of the policies at year-end is referred to as reserve for unearned premiums in the liability section of the statement of financial position.

Claims and loss adjustment expenses are charged against profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claim costs including those for IBNR are estimated and accrued. The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims using the input of assessment for individual cases reported to the Company.

The method of determining such estimates and establishing reserves is continually reviewed and updated. Changes in estimates of claims costs resulting from the continuous review process and differences between estimates and payments for claims are recognized in profit or loss in the year in which the estimates are changed or payments are made. Estimated recoveries on settled and unsettled claims are evaluated in terms of estimated realizable values of the salvage recoverable and deducted from the liability for unpaid claims. Outstanding claims and IBNR are presented in the liability section of the statement of financial position as part of reserve for outstanding losses.

In accordance with the new valuation standards for the determination of premium liabilities on an aggregate basis, UPR is calculated based on the 24th method on written premiums during the year. Provision is made for the URR where the expected value of claims and expenses attributable to the unexpired period of policies in force at the reporting date exceeds the UPR in relation to such policies. The loss ratio assumptions adopted for estimating the expected claims cost are based on the Company's historical data. At each reporting date, the provision is assessed for adequacy and changes are made to the provision accordingly. Additional provision may be made by management as deemed necessary.

26.13.2 Reinsurance commission

Reinsurance commission is initially deferred upon acceptance of the premium cession by reinsurers and earned in proportion to premium revenue recognized.

26.13.3 Acquisition costs

Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts such as commissions are deferred and charged to expense in proportion to premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as DAC.

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

26.13.4 Reserve for outstanding losses; liability adequacy test

Provision is made for full estimated cost of all claims notified, but not settled at the reporting date using the best information available at the time. Provision is also made for the estimated cost of IBNR claims until after the year-end. The primary technique adopted by management in estimating the cost of IBNR is that of using historical claim settlement trends to predict future claims settlement trends. At each reporting date, prior year's claims estimates are reassessed for adequacy and changes are made to the provision. The principal method used to determine the best estimate of the claim liabilities is the chain ladder method which involve the analysis of historical claims development based on the historical pattern.

Provisions is also made for the MfAD and CHE. A combination of generally accepted actuarial methods including bootstrapping and Mack method is used in the selection of MfAD assumptions. The implied CHE assumption is expressed as proportion of the best estimate of IBNR claims and outstanding claims. Additional provision is also made if the estimates of URR is higher than UPR, consistent with the requirement of the IC.

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing-off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired provision). Any DAC written off as a result of this test cannot be subsequently reinstated.

26.13.5 Reinsurance contracts held

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

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of due from reinsurers (classified within insurance balances receivable) and reinsurers' share in insurance liabilities. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense upon recognition of related premiums.

The Company assesses its reinsurance assets for impairment annually. If there is an objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes the impairment loss in profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 26.3.5.

26.13.6 Receivables and payables related to insurance contracts

Receivables and payables are recognized when the right to receive payment is established or when the obligation becomes due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is an objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in Note 26.3.5.

26.14 Interest income and expense

Interest income on loans and investments, and interest expense, are recognized in profit or loss for all interest-bearing financial instruments using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

26.15 Dividend income

Dividend income is recognized in profit or loss when the right to receive payment is established.

26.16 Foreign currency transactions and translation

Functional and presentation currency

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

Transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency and classified as AFS financial assets are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in OCI.

Translation differences on non-monetary financial instruments, such as equities classified as AFS financial assets, are included in OCI.

26.17 Provisions

Provisions are recognized when all of the following conditions are met: (i) the Company has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

26.18 Income taxes

The tax expense for the period comprises current (including final tax) and DIT. Tax is recognized in profit or loss, except to the extent that that it relates to items recognized in OCI or directly in equity. In this case, the tax is also recognized in OCI or directly in equity, respectively.

Current income tax

Income tax payable is calculated on the basis of the applicable tax law and is recognized as an expense for the year except to the extent that the current tax is related to items (for example, current tax on AFS financial assets) that are charged or credited in OCI or directly to equity.

Interest income from cash in banks and investments are subject to final withholding tax. Such income is presented at its gross amounts and the tax paid or withheld is included in Provision for income tax.

DIT

DIT is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The DIT is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. DIT is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related DIT asset is realized or the DIT liability is settled.

DIT assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. DIT liabilities are recognized in full for all taxable temporary differences.

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

The Company reassesses at each reporting date the need to recognize a previously unrecognized DIT asset.

DIT expense or credit included in Provision for income tax is recognized for the changes during the year in the DIT assets and liabilities.

26.19 Employee benefits

Retirement benefits

The Company has a trustee-administered, non-contributory defined benefit plan covering all qualified officers and employees. A defined benefit plan is a pension plan that defines an amount of retirement that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The retirement benefit asset or liability recognized in the statement of financial position in respect of a defined benefit retirement plan is the present value of the retirement benefit obligation at the end of each reporting period less the fair value of plan assets. The retirement benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in Philippine peso and that have terms to maturity which approximate the terms of the related pension liability. The fair value of plan assets is based on the valuation of the retirement fund assets at the reporting dates.

Where the calculation results in a benefit to the Company, the recognized asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in OCI in the year in which they arise.

Profit-sharing and bonus plans

The Company recognizes a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based compensation

The Company's management awards high-performing employees with bonuses in the form of options to purchase BPI's common shares, from time to time, on a discretionary basis. The options are subject to certain service vesting condition, and their fair value is recognized as an employee benefits expense with a corresponding increase in reserves over the vesting period.

26.20 Equity

Share capital

Ordinary shares are stated at par value and are classified as equity. Incremental costs directly attributable to the issue of new shares, if any, are shown in equity as a deduction from the proceeds.

Share premium

Any amount received by the Company in excess of par value of its shares is credited to share premium which forms part of the non-distributable reserve of the Company and can be used only for purposes specified under corporate legislation.

Retained earnings

Retained earnings pertain to the unrestricted portion of the accumulated profit from operations of the Company, which are available for dividend declaration.

26.21 Dividend declaration

Cash and stock dividends are recorded in the period in which they are approved by the Company's BOD.

26.22 Leases (Company as a lessee)

The Company recognizes lease as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the lease commencement date plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is subsequently amortized on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the lease term. The estimated useful life of the right-of-use asset is determined on the same basis as those of the related property and equipment category. The right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Refundable deposits paid to the lessor are carried at the present value of the future cash flows using an appropriate discount rate. The difference between the carrying amount and the actual consideration paid is treated as additional rental incentive which is amortized on a straight-line basis over the term of the lease.

26.23 General and administrative expenses

General and administrative expenses are recognized when incurred.

26.24 Related party relationships and transactions

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

26.25 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no significant changes to the presentation made during the years ended December 31, 2020 and 2019.

26.26 Subsequent events (or Events after reporting date)

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

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

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

(a) Output value-added tax ("VAT")

Output VAT declared for the year ended December 31, 2020 consists of:

	Gross amount of revenues	Output VAT
Non-life premiums		
Subject to 12% VAT	4,686,781	562,414
Zero-rated	935,909	-
	5,622,690	562,414

Zero-rated premiums pertain to non-life premiums from PEZA-registered entities pursuant to BIR Revenue Regulations No. 16-2005, as amended. Gross premiums above are based on actual collection of premiums, net of returns, for tax purposes.

(b) Input VAT

Details of input VAT for the year ended December 31, 2020 and their movements during the year follow:

	Amount
Beginning balance	17,106
Add: Current year's domestic purchases/payments for:	
Services	79,817
Commission	37,727
Goods other than for resale	7,169
Capital goods subject to amortization	4,699
Reinsurance	2,917
Claims	2,412
Ending balance	151,847

Input VAT is netted against output VAT. Output VAT payable is reported as part of taxes payable under Accounts payable, accrued expenses and other liabilities in the statement of financial position.

(c) Documentary stamp taxes

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

	Paid	Accrued	Total
Non-life insurance policies/lease agreements	703,117	-	703,117

Documentary stamp taxes above include taxes which were passed on to the policyholders.

(d) All other local and national taxes

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

	Paid	Accrued	Total
Local government taxes	17,862	17,502	35,364
Premium tax (Non-life insurance)	2,420	894	3,314
Municipal taxes	2,015	-	2,015
Real property tax	580	-	580
Mayor's permit	60	-	60
Community tax	42	-	42
Others	437	-	437
	23,416	18,396	41,812

The above local and national taxes are lodged under Taxes and licenses in General and administrative expenses in the statement of income, except for local government taxes and premium taxes which are passed on to policyholders and real property taxes which are deducted from investment income.

Accrued local and national taxes is reported as part of taxes payable under Accounts payable, accrued expenses and other liabilities in the statement of financial position.

(e) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Expanded withholding tax	84,837	10,366	95,203
Withholding tax on compensation	41,911	5,634	47,545
Fringe benefit tax	6,210	3,453	9,663
Final withholding tax	2,785	397	3,182
VAT withholding	775	109	884
	136,518	19,959	156,477

Accrued withholding taxes are reported as part of taxes payable under Accounts payable, accrued expenses and other liabilities in the statement of financial position.

(f) Tax assessments/ tax cases

Taxable years 2019, 2018 and 2017 are open tax years. The Company has not received any Preliminary or Final Assessment Notice on the open tax years as at and for the year ended December 31, 2020.

The Company has no outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR as at and for the year ended December 31, 2020.

(g) Others

The Company is not subject to any other taxes other than those described above.