COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number: 3 3 3

COMPANY NAME

COMMONWEALTH INSURANCE COMPANY

PRINCIPAL OFFICE *(No./Street/Barangay/City/Town)Province)*

10TH, 12TH, AND 19TH FLOOR
BDO PLAZA, PASEO DE ROXAS
MAKATI CITY

Form Type	Department requiring the report	Secondary License type, If Applicable
AAFS	ICTD	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Numbers	Mobile Number
info@cic.com.ph	818-7626	9186813750

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
27	Apr-12	12/31

CONTACT PERSON INFORMATION

The designated person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
EDEN P. CADAY	eden.caday@cic.com.ph	818-7626 loc. 1027	

CONTACT PERSON's ADDRESS

10th, 12th and 19th Floor, BDO Plaza, Paseo de Roxas, Makati City

RECEIVED APR 28 2023

NOTE 1*: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete details of the new contact person designated.*

2: *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

2022
AUDITED FINANCIAL STATEMENTS

COMMONWEALTH INSURANCE COMPANY
December 31, 2022 and 2021

R. R. TAN AND ASSOCIATES
Certified Public Accountants

COMMONWEALTH
INSURANCE COMPANY

HeadOffice:10th, 12th & 19th Flr.
BDO Plaza 8737 Paseo de Roxas
Makati City, Philippines
Tel. Nos.: 8818-7626
Fax No.: (632) 8813-8575
E-mail: info@cic.com.ph
www.cic.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of **Commonwealth Insurance Company** (the "Company"), is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

R. R. Tan and Associates, CPAs, the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

MARIO A. NOCHE
President

RAFAEL C. REGALA
Chairman of the Board

JOSE PAOLO F. NOCHE
Treasurer

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APR 28 2023

Signed this 14th day of April, 2023.

R. R. TAN & ASSOCIATES, CPAs

Unit 1705, Antel Global Corporate Center
Doña Julia Vargas Avenue, Ortigas Center
Pasig City, Philippines 1605
Tel.: (632) 8638-3430 to 32; Fax: (632) 8638-3430
e-mail : info@rrtan.net

PRC-BOA Reg. No. 0132, valid until August 13, 2024
SEC Accreditation No. 0394-F, valid until July 23, 2023
BIR Accreditation No. 07-100510-002-2022, valid until September 14, 2025
IC Accreditation No. 0132-IC, valid until November 17, 2024

Report of Independent Public Accountants

The Board of Directors and Stockholders
COMMONWEALTH INSURANCE COMPANY
10th, 12th and 19th Floor, BDO Plaza
Paseo de Roxas, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **COMMONWEALTH INSURANCE COMPANY** (the Company), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations (RR) 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Company's supplementary information disclosed in Note 33 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R. R. TAN AND ASSOCIATES, CPAs

By: **CHESTER NIMITZ F. SALVADOR**
Partner
CPA Certificate No. 0129556
Tax Identification No. 307-838-154
PTR No. 173379, January 17, 2023, Pasig City
SEC Accreditation No. 1812-A, valid until July 23, 2023
BIR Accreditation No. 07-100488-001-2022, valid until May 30, 2025
IC Accreditation No. 129556-IC, valid until March 1, 2025

April 14, 2023
Pasig City

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R. R. TAN & ASSOCIATES, CPAs

Unit 1705, Antel Global Corporate Center
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BIR Accreditation No. 07-100510-002-2022, valid until September 14, 2025
IC Accreditation No. 0132-IC, valid until November 17, 2024

Report of Independent Public Accountants to accompany financial statements for filing with Securities and Exchange Commission

The Board of Directors and Stockholders
COMMONWEALTH INSURANCE COMPANY
10th, 12th and 19th Floor, BDO Plaza
Paseo de Roxas, Makati City

We have audited the financial statements of **COMMONWEALTH INSURANCE COMPANY** as at and for the year ended December 31, 2022, on which we have rendered the attached report dated April 14, 2023.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the said company has a total number of twenty-seven (27) stockholders owning one hundred (100) or more shares each.

R. R. TAN AND ASSOCIATES, CPAs

By: **CHESTER NIMITZ F. SALVADOR**
Partner
CPA Certificate No. 0129556
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April 14, 2023
Pasig City

COMMONWEALTH INSURANCE COMPANY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	Notes	2022	2021
ASSETS			
Cash and cash equivalents	8	**P 1,546,858,225**	P 1,284,899,601
Short-term bank investments	8	**90,663,621**	123,235,348
Investments			
Available-for-sale	9	**182,031**	225,657
Held-to-maturity	9	**1,207,540,991**	1,151,981,527
Insurance balances receivable	10	**1,075,402,302**	857,413,608
Reinsurance assets	11	**98,937,565**	32,223,009
Investment properties	12	**80,854,000**	80,924,000
Property and equipment - net	13	**384,138,472**	358,697,266
Deferred acquisition cost	14	**195,851,016**	191,294,588
Accrued investment income	15	**5,494,144**	2,623,877
Deferred tax assets - net	29	**22,689,922**	-
Other assets	16	**3,596,802**	4,430,990
TOTAL ASSETS		**P 4,712,209,091**	P 4,087,949,471
LIABILITIES AND EQUITY			
LIABILITIES			
Insurance claims payable	17	**P 314,327,153**	P 132,259,892
Reserve for unearned premiums	18	**1,044,640,590**	1,056,934,485
Reinsurance liabilities	19	**23,290,503**	14,954,443
Accounts payable and accrued expenses	20	**577,405,441**	498,743,693
Deferred tax liability - net	29	**-**	25,936,228
Deferred commission income	14	**10,978,106**	5,794,247
Defined benefit liability	28	**109,178,843**	110,534,293
Total Liabilities		**2,079,820,636**	1,845,157,281
EQUITY			
Share capital	21	**843,750,000**	600,000,000
Contributed surplus		**500,000**	500,000
Revaluation reserve on:			
Available-for-sale investments	9	**116,261**	159,887
Property and equipment - net of tax	13	**48,718,089**	50,285,916
Remeasurement loss on defined benefit liability - net of tax		**(27,160,563)**	(33,321,700)
Retained earnings - December 31		**1,766,464,668**	1,625,168,087
Total Equity		**2,632,388,455**	2,242,792,190
TOTAL LIABILITIES AND EQUITY		**P 4,712,209,091**	P 4,087,949,471

See accompanying notes to financial statements

COMMONWEALTH INSURANCE COMPANY
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Notes	2022	2021
REVENUES			
Gross premiums earned	*23*	**P 2,315,799,354**	P 2,067,633,897
Reinsurance premium ceded	*23*	**80,850,204**	49,292,686
Net insurance revenue		**2,234,949,150**	2,018,341,211
Commission income	*25*	**23,428,878**	14,117,939
Interest income - net	*26*	**46,154,052**	33,556,621
Other income	*26*	**2,931,265**	9,215,629
		2,307,463,345	2,075,231,400
CLAIMS, LOSSES AND ADJUSTMENT EXPENSES			
Insurance claims, losses and adjustment expenses paid - net of salvages and recoveries	*24*	**1,102,313,826**	995,298,871
Paid insurance claims, losses and adjustment expenses recovered from reinsurers	*24*	**(10,743,226)**	(6,228,667)
Changes in insurance claims payable		**182,067,261**	(1,449,633)
Changes in reinsurers' share of claims, losses and adjustment expenses		**(37,708,059)**	(5,651,651)
Other underwriting expenses		**18,718,174**	17,970,303
		1,254,647,976	999,939,223
COST AND EXPENSES			
Commission expense	*25*	**594,860,328**	546,307,458
Administrative expenses	*27*	**348,990,611**	423,531,377
		943,850,939	969,838,835
PROFIT BEFORE INCOME TAX EXPENSE		**108,964,430**	105,453,342
INCOME TAX EXPENSE (BENEFIT) - NET	*29*	**(30,241,715)**	14,683,063
PROFIT FOR THE PERIOD		**P 139,206,145**	P 90,770,279

See accompanying notes to financial statements

COMMONWEALTH INSURANCE COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Notes		2022		2021
PROFIT FOR THE PERIOD		P	**139,206,145**	P	90,770,279
OTHER COMPREHENSIVE INCOME					
Items to be reclassified to profit or loss in subsequent periods:					
Fair value changes in AFS investments	9		**(43,626)**		12,605
Items not to be reclassified to profit or loss in subsequent periods:					
Remeasurement gain on defined benefit plan	28		**8,214,850**		13,780,403
Effect of deferred income tax			**(2,053,713)**		(3,445,101)
			6,161,137		10,335,302
TOTAL COMPREHENSIVE INCOME		P	**145,323,656**	P	101,118,186

See accompanying notes to financial statements

COMMONWEALTH INSURANCE COMPANY
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Notes		2022		2021
SHARE CAPITAL					
Preferred shares	21	P	20,000,000	P	20,000,000
Common shares					
Balance, January 1			580,000,000		480,000,000
Subscribed, net of subscription receivable	21		43,750,000		-
Issuance during the year	21		200,000,000		100,000,000
Balance, December 31			823,750,000		580,000,000
			843,750,000		600,000,000
CONTRIBUTED SURPLUS			500,000		500,000
REVALUATION RESERVE ON AVAILABLE-FOR-SALE INVESTMENTS					
Balance, January 1			159,887		147,282
Fair value changes			(43,626)		12,605
Balance, December 31			116,261		159,887
REVALUATION RESERVE ON PROPERTY AND EQUIPMENT - net of tax					
Balance, January 1			50,285,916		48,396,826
Effect of change in tax rate			-		3,456,917
Realized portion of revaluation reserve absorbed through depreciation			(1,567,827)		(1,567,827)
			48,718,089		50,285,916
REMEASUREMENT LOSS ON DEFINED BENEFIT LIABILITY - net of tax					
Balance, January 1			(33,321,700)		(45,012,407)
Effect of change in tax rate			-		1,355,405
Remeasurement gain during the year			6,161,137		10,335,302
Balance, December 31			(27,160,563)		(33,321,700)
RETAINED EARNINGS					
Balance, January 1			1,625,168,087		1,532,307,372
Profit for the period			139,206,145		90,770,279
Realized portion of revaluation reserve on property and equipment absorbed through depreciation			2,090,436		2,090,436
Balance, December 31			1,766,464,668		1,625,168,087
		P	2,632,388,455	P	2,242,792,190

See accompanying notes to financial statements

COMMONWEALTH INSURANCE COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax expense		P 108,964,430	P 105,453,342
Adjustments for:			
Amortization of premium/discount on HTM investments	9	(7,932,505)	(4,798,527)
Depreciation	12, 13	20,474,223	19,636,237
Amortization of deferred acquisition cost - net	14	627,433	(8,015,162)
Provision for retirement benefits	28	17,759,645	16,708,685
Reserve for unearned premiums		(12,293,895)	43,849,188
Interest income	26	(46,154,052)	(33,556,621)
Operating income before working capital changes		81,445,279	139,277,142
(Increase) Decrease in Operating Assets:			
Insurance balances receivable		(217,988,694)	(77,790,384)
Reinsurance assets		(66,714,555)	924,688
Other assets		834,188	292,449
Increase (Decrease) in Operating Liabilities:			
Insurance claims payable		182,067,261	(1,449,633)
Reinsurance liabilities		8,336,060	(4,215,284)
Accounts payable and accrued expenses		277,990,405	331,996,110
Cash Provided by Operations		265,969,944	389,035,088
Contributions to retirement fund	28	(6,000,000)	(7,000,000)
Benefits paid directly from book reserve	28	(4,900,245)	-
Income taxes paid		(19,244,199)	(17,231,792)
Net Cash Provided by Operating Activities		235,825,500	364,803,296
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale/maturities of:			
Held-to-maturity investments	9	667,210,202	516,208,321
Acquisition of:			
Held-to-maturity investments	9	(714,837,161)	(530,471,629)
Investment properties	12	-	(51,418,000)
Property and equipment	13	(45,845,429)	(36,167,577)
Interest received		43,283,785	35,033,477
Net Cash Used in Investing Activities		(50,188,603)	(66,815,408)
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional subscription to common shares	21	43,750,000	-
NET INCREASE IN CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		229,386,897	297,987,888
CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR		1,408,134,949	1,110,147,061
CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS AT END OF YEAR		P 1,637,521,846	P 1,408,134,949

See accompanying notes to financial statements

COMMONWEALTH INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

1. Corporate Information

Commonwealth Insurance Company (the "Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 26, 1935. Its corporate term was extended to another fifty (50) years from and after the date of expiration of its first fifty (50)-year term on December 26, 1985, as per SEC Certificate of Filing of Amended Articles of Incorporation dated January 30, 1985.

The company is a business engaged in a non-life insurance and organized to insure houses, tenements, merchandise and all other property and effects, real and personal, against loss or damage by fire, storm, earthquake shock, fire resulting from earthquake, accident or otherwise, and to carry on the ordinary business of fire insurance in all aforesaid branches and to rebuild, repair, replace or reinstate houses, buildings, machinery and every other description of property which may be insured by the company and to carry on any kind of business necessary or expedient for any such purpose

The financial statements of the Company as of and for the years ended December 31, 2022 and 2021 were authorized for issue by the Board of Directors on April 14, 2023.

The registered office of the Company is located at 10th, 12th and 19th Floor, BDO Plaza, Paseo de Roxas, Makati City.

2. Statement of Compliance and Basis of Preparation and Presentation

Statement of Compliance
The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as set forth in Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including SEC pronouncements.

Basis of Financial Statement Preparation and Presentation
The accompanying financial statements have been prepared on a historical cost basis except for available-for-sale financial assets which are measured at fair value and certain property and equipment which are carried at their revalued amounts.

The financial statements are presented in Philippine Peso and all values represent absolute amount except when otherwise indicated.

The Company presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within twelve months after the end of the reporting period (current) is presented in the Note 32.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

3. Summary of Significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of amendments to PFRS discussed in Note 4. The adoption however did not result in any material adjustment or reclassification in the financial statements.

Financial Instruments

Date of Recognition
Financial assets and financial liabilities are recognized in the statements of financial position of the Company when it becomes a party to the contractual provisions of the instrument.

Initial Recognition
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. Transaction costs of financial assets and liabilities at FVPL are recognized in profit or loss.

Determination of Fair Value
The fair value for instruments traded in active market at the reporting date is based on their quoted market price. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which market observable prices exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instruments or based on a valuation technique, the Company recognizes the difference between the transaction price and fair value in the statements of income unless it qualifies for recognition as some other type of asset.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

Classification of Financial Instruments
The Company classifies financial assets into the following categories, (i) At fair value through profit or loss (FVPL), (ii) Available-for-sale, (iii) Held-to-maturity and (iv) Loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability is reported as expense or income.

(i) Financial Assets and Financial Liabilities at FVPL

Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as FVPL. After initial recognition, financial assets and financial liabilities at FVPL are carried at fair value.

A financial asset or financial liability is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at FVPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistently that would otherwise arise; or
- The financial asset forms part of a group of financial assets which is managed and its performance is evaluated on a fair value basis.
- It forms part of a contract containing one or more embedded derivatives.

As of December 31, 2022, and 2021, there are no financial assets and liabilities under this category.

(ii) Available-for-sale (AFS)

AFS are non-derivative financial assets that are either designated on this category or not classified in any of the other categories. Subsequent to initial recognition, AFS investments are carried at fair value in the statement of financial position. Changes in the fair value are recognized directly in equity account as "*Revaluation reserves on available-for-sale investments*". Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period.

Included under this category are the Company's equity investments listed in Philippine Stock Exchange.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate.

Included under this category are cash and cash equivalents, short-term bank investments, insurance balances receivables, reinsurance assets, other receivables and deposits.

(iv) Held-to-maturity (HTM)

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. After initial measurement, HTM assets are carried at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Any changes to the carrying amount of the investment are recognized in the statements of income.

Included under this category are peso denominated investments in government securities.

(v) Other Financial Liabilities

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Included under this category are accounts payable and accrued expenses, reinsurance liabilities, insurance claims payable and other liabilities.

Reclassification of Financial Assets
A financial asset is reclassified out of the FVPL category when the following conditions are met (i) the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and (ii) there is a rare situation.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Impairment of Financial Assets
The Company assesses at each end of the reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(i) Assets carried at amortized cost
If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in the profit and loss accounts.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

Any subsequent reversal of an impairment loss is recognized in the profit and loss accounts, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(ii) Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

(iii) Available-for-sale investments
Available-for-sale financial assets are subject to impairment review at each end of the reporting period. Impairment loss is recognized when there is objective evidence such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of an asset is below its carrying amount.

Derecognition of Financial Instruments

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

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

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

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

<u>Accounting Policies for Insurance and Reinsurance Contracts</u>

- Insurance Contract
  Insurance contract is an agreement under which one party (the insurer), accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured events) adversely affects the policyholder.

- Contract Classification
  All the Company's existing products are insurance contracts as defined under PFRS 4. Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or where at inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

  Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

  The Company issues short-term insurance contracts categorized as (i) Casualty, (ii) Property, (iii) guaranty and (iv) short-duration life accident insurance.

Casualty insurance contracts protect the assured against the risk of causing them harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. Property insurance contracts mainly compensate the Company's assured for damages suffered to their properties or for the value of property lost. Short-duration accident insurance protects the assured from the consequences of events such as death or disability.

- Insurance Balances Receivable
  These include amounts due to and from agents, brokers and insurance contract holders which comprise the balance of uncollected policy premiums and reinsurance premiums from reinsurers arising from reinsurance contracts measured at amortized cost, using the effective interest method.

- Reinsurance
  The Company assumes and cedes (Treaty and Facultative) insurance risk in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered as direct business, taking into account the product classification of the reinsured business.

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

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

  Reinsurance assets and liabilities are derecognized when the contractual rights are extinguished or expired.

- Impairment
  An impairment review is performed on all insurance and reinsurance assets when an indication of impairment occurs. These assets are impaired only if there is objective evidence that the Company may not receive the amounts due to it under the terms of the contract and that it can be measured reliably.

- Deferred Acquisition Costs
  Commissions and other expenses directly attributable to the production and renewal of insurance contracts are deferred in proportion to premium revenue recognized. Deferred acquisition costs are amortized over the life of the policy in which it was incurred.

  Deferred acquisition costs are reviewed at each reporting date and the carrying value is written down to the recoverable amount.

- Reserve for Unearned and Reinsurance Premiums
  Reserve for unearned premiums is calculated on the following basis:

  (i) Reserve for unearned premium, other than marine cargo and inward treaties, are calculated using the 24^{th} method based on gross premiums written. Under the 24^{th} method, it is assumed that the average date of issue of all policies written during any one month is the middle of that month.

  (ii) Reserve for unearned premiums on inward treaties is taken up based on the dates the statement is received.

  Reserve for reinsurance premium represents the portion of reinsurance premiums ceded computed in the same manner as the reserve for unearned premiums.

The changes in reserves for unearned and reinsurance premiums is reported in the statements of income.

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

  The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim cost resulting from continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

  Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim. The Company may also have the right to pursue third parties for payment of some or all costs.

- Insurance Claims Payable
  Liabilities for claims is calculated as the sum of Outstanding claims reserve, Claims handling expense, and Incurred but not reported claims (IBNR), with Margin for Adverse Deviation (MfAD). At end of each reporting period, liability adequacy tests are performed, to ensure the adequacy of liabilities for claims. In performing the test for premium liabilities, the Unearned Risk Reserve (URR) is compared to the Unearned Premium Reserve (UPR). If the URR is greater than the UPR, the excess is set up as an additional premium liability on top of the UPR.

  In calculating IBNR, the following primary reserving methodologies were applied in the valuation process:

  - Chain Ladder or Loss Development Triangles Method
  - Bornhuetter-Ferguson Method.
  - Expected Loss Ratio Method

  The Actuary determines the appropriateness of the methodology considering the characteristics of the data available. The Actuary also assesses the reliability of the expected loss ratios by obtaining estimates from various sources, such as underwriters, the business plan, pricing actuaries, market statistics, or from a historic view of profitability and loss ratios. In valuing the claims liabilities, the Actuary also considers other factors such as, but not limited to, varying expense structure in run-off situations, large losses arising from significant past events, operational changes in claims management, underwriting changes such as business mix and premium rate changes, changes in reinsurance program, changes in claims handling process, and external conditions.

  To ensure sufficiency of reserves, the Actuary conducts a back-testing exercise by comparing actual and expected experience based on previous valuations. Claim liabilities also include MfAD to allow for inherent uncertainty of the best estimate.

- Premium Reserves
  Premium reserves refer to all future claim payments arising from future events after the valuation date that are insured under unexpired policies, as well as expenses for policy management and claims settlement, and is computed as the higher of the UPR and URR at a designated level of confidence, on both gross and net of reinsurance basis.

  UPR is the reserve for that portion of the premium received which is attributable to a period of risk falling beyond the valuation date, and is recognized as revenue over the period of the policy using the 24th method. URR is an estimate of the total liability (including expenses), at a designated level of confidence, in respect of the risk after the valuation date of policies written prior to that date including expenses for policy management and claims settlement costs. In estimating URR, the Company adopted the loss ratio approach by multiplying the UPR with loss ratios adjusted by taking into account all potential future payments including but not limited to future claims payments, retrocession costs, unallocated loss adjustment expense and ongoing policy administration costs arising from the unearned portion of premium collected. A computation is performed to determine whether the URR required is greater or less than the UPR. If the URR is greater, then the difference should be booked as an additional reserve on top of the UPR.

- Options and Guarantees
  Options and guarantees within insurance are treated as derivative financial instruments which are closely related to the host insurance contracts and are therefore not separated subsequently.

Cash and Cash Equivalents and Short-term Bank Investments
Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents with original maturities beyond three months is presented as short-term bank investments.

Investment Properties
Investment properties are measured initially at cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable costs. Subsequently, investment properties are measured at cost, less accumulated depreciation and amortization and accumulated impairment in value, if any.

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

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell. For transfer from investment property to owner-occupied property the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy under property and equipment up to the date of change in use.

The useful lives and method of depreciation of the assets are reviewed and adjusted, if appropriate, at each reporting period.

Depreciation for condominium unit is computed using the straight-line method over the estimated useful life of 50 years.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the statement of income in the year of retirement or disposal.

Property and Equipment
Property and equipment are initially recognized at cost including the costs to get the property ready for its intended use. Subsequent to initial recognition, property and equipment, except condominium units, are carried at cost less accumulated depreciation and impairment losses, if any. Condominium units are subsequently measured at their revalued amounts, less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from the fair value at the end of the reporting period.

The revaluation increase arising from the revaluation of such condominium units is recognized in other comprehensive income under "Revaluation Reserve on Property and Equipment" account. The depreciation of revalued condominium units is transferred to unappropriated retained earnings.

Depreciation is computed on a straight-line method over the estimated useful lives of the depreciable assets as follows:

Buildings and improvements	50 years
Condominium units	50 years
Leasehold improvements	10 years
Office furniture, fixtures and equipment	5 years
EDP equipment	5 years
Transportation equipment	10 years

An asset's residual value, useful life and depreciation method are reviewed periodically to ensure that the period, residual value and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Expenditures for additions, major improvements and renewals are capitalized while minor repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in the statement of income for the period.

When the carrying amount of an asset is greater than its estimated recoverable amount, the cost is written down immediately to its recoverable amount. Fully depreciated assets are retained in the accounts until they are no longer in use.

Impairment of Non-financial Assets
The Company's investment properties and property and equipment are subject to impairment testing. All other individual asset or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's recoverable amount exceeds its carrying amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indication that an impairment loss previously recognized may no longer exists and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Equity
Share capital is determined at par value of shares that have been issued.

Contributed surplus represent additional contribution of stockholders to the Company in compliance with the requirement of the Insurance Commission.

Retained earnings include all current and prior period results as disclosed in the statements of income, dividends declared and realized portion of revaluation surplus absorbed through depreciation.

Other comprehensive items
Revaluation reserve on AFS investment represents the difference between acquisition cost of the investment and its fair value at end of the reporting period.

Revaluation surplus on property and equipment pertains to the difference between the fair value and the carrying value of the property and equipment, net of deferred income tax.

Remeasurement gain or loss on retirement benefit obligation, upon the adoption of revised PAS 19, represents all actuarial gains and losses during the year on the retirement obligation arising from experience adjustments, which are the differences from the previous actuarial assumptions and what has actually occurred.

Dividends
Dividends declared are recognized in the financial statements when approved by the BOD.

In accordance with Section 195 of the Insurance Code, dividend declaration or distribution from accumulated profits remaining on hand can only be made after retaining unimpaired the following:

- The entire paid-up capital stock;
- The margin of solvency required;
- The legal reserve fund required; and
- A sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

Revenue Recognition
The Company recognizes revenue when it transfers control over a product or service to a customer. Revenue is measured at the transaction price which the entity expects to be entitled in exchange for a good or service. The following specific recognition criteria must also be met before revenue is recognized:

Premiums
Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method wherein revenue is recognized based on the provisions in the Insurance Code. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting periods are accounted for as "*Reserve for unearned premiums*" and presented in the liability section of the statement of financial position. The reinsurance premiums ceded that pertains to the unexpired period as at reporting dates are accounted for as "*Reserve for reinsurance premiums*" and presented under "Reinsurance assets" in the statements of financial position. The net changes in these accounts between reporting dates are credited or charged against income for the year.

Commission
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as "*Deferred commission income*" in the liabilities section of the statement of financial position.

Interest income
Interest income from bank deposits, special savings account, available-for-sale and held-to-maturity investment is recognized as interest accrues taking into account the effective yield on the related asset.

Dividend income
Dividend income is recognized when the right to receive dividends is established.

Realized gains and losses
Realized gains and losses on the sale of property and equipment are calculated as the difference between net sales proceeds and the net book value. Realized gains and losses on the sale of AFS financial assets are calculated as the difference between net sales proceeds and the original cost net of accumulated impairment losses. Realized gains and losses are recognized in profit or loss when the sale transaction occurred.

Cost and Expense Recognition

Claims
Liabilities for claims and claims adjustments expenses relating to insurance contracts are accrued when insured events occur.

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

Share in recoveries in claim are evaluated in terms of the estimated realizable values of the salvage or recoveries. Recoveries on settled claims are recognized in profit or loss in the period the recoveries are determined, recoveries on the unsettled claims are recorded as reinsurance recoverable on losses shown as part of reinsurance assets.

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

Reinsurance commission
Commissions paid to ceding companies are deferred and are included in deferred acquisition cost. The amortization process is co-terminus with the related premium income.

Administrative expenses
Administrative expenses are recognized when incurred.

Income Taxes
Current tax liabilities are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted as at the end of the reporting period.

Deferred tax assets and liabilities are recognized using the balance sheet liability method on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax liabilities are recognized for all taxable differences between the financial reporting bases of liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates expected to apply to the periods when the asset is realized or the liability is settled.

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of income. Only changes in deferred tax assets or liabilities that relate to a change in value of asset or liabilities are charged or credited directly to equity.

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

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit (PUC) method.

Defined benefit costs comprise the following:

- service cost;
- net interest on the net defined benefit liability or asset; and
- re-measurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

Compensated absences
Compensated absences are recognized for the number of paid leaves days (including holiday entitlement) remaining at reporting date at the undiscounted amount the Company expects to pay as a result of the unused entitlement.

Leases
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in PFRS 16.

As a Lessee
At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. 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 commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset of the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically 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 interest 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.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company used a number of practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17. In particular, the Company:

- Did not recognized right-of-use assets and liabilities for leases for which the lease term ends within 12 months from the date of initial application;
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term.

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

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

Foreign currency transactions are translated into the functional currency at exchange rates prevailing at the time of transaction. Foreign currency gains and losses resulting from settlement of such transaction and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Related Party Transactions
Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The related party transactions are recognized based on transfer of resources or obligations between related parties, regardless of whether a price is charged.

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

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

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

In those cases, where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

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

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

4. Changes in Accounting Standards and Disclosures

New Accounting Standards and Amendments to Existing Standards Effective as of January 1, 2022

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to PFRS effective beginning January 1, 2022. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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

Amendments to PFRS 3, *Reference to the Conceptual Framework*
The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets or Philippine-IFRIC 21, Levies, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and must be applied prospectively.

Amendments to PAS 16, *Property, Plant and Equipment – Proceeds before Intended Use*
The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before the asset is available for use.

The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2 *Inventories*.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a Company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and costs are presented separately in the statement of comprehensive income.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments do not have significant impact on the Company's financial statements.

Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contract: Cost of Fulfilling a Contract*
The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

The amendments are effective for annual periods beginning on or after January 1, 2022. The amendments do not have significant impact on the Company's financial statements.

Annual Improvements to PFRSs (2018-2020 cycle)
The Annual Improvements to PFRSs (2018-2020 cycle) are effective for annual periods beginning or after January 1, 2022 and are not expected to have a significant impact on the Company's financial statements.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards, Subsidiary as a first-time adopter*
  The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.

- PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
  The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- PFRS 16, *Leases, Lease incentives illustrative example*
  The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- PAS 41, *Agriculture, Taxation in fair value measurements*
  The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

<u>New Accounting Standard, Amendments to Existing Standards and Interpretations Effective Subsequent to December 31, 2022</u>
The standards, amendments and interpretations which have been issued but not yet effective as at December 31, 2022 are disclosed below. Except as otherwise indicated, the Company does not expect the adoption of the applicable new and amended PFRS to have a significant impact on its financial position or performance.

Effective beginning on or after January 1, 2023

Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023. The amendments are not expected to have a material impact on the Company.

Amendments to PAS 8, *Definition of Accounting Estimates*
The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*
The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2024

Amendments to PAS 1, *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current*
The amendments clarify paragraphs 69 to 76 of PAS 1, Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period

- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The Company is currently assessing the impact the amendments will have on current practice.

Amendments to PFRS 16, *Leases - Lease Liability in a Sale and Leaseback*
The amendments clarify that the liability that arises from a sale and leaseback transaction, that satisfies the requirements of PFRS 15, *Revenue from Contracts with Customers,* to be accounted for as a sale, is a lease liability to which PFRS 16 applies and give rise to a right-of-use asset. For the subsequent measurement, the seller-lessee shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying this subsequent measurement does not prevent the seller-lessee from recognizing any gain or loss relating to the partial or full termination of lease. Any gain or loss to the partial of full termination of the lease does not relate to the right of use retained but to the right of use terminated.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Early application is permitted. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2025

PFRS 17, *Insurance Contracts*
PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of PFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of the financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The key principles in PFRS 17 are that an entity:

- Identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- Separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- Divides the contracts into groups that it will recognize and measure;
- Recognizes and measures groups of insurance contracts at:

    i. a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset); or

    ii. an amount representing the unearned profit in the group of contracts (the contractual service margin);

- Recognizes the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately;
- Presents separately insurance revenue (that excludes the receipt of any investment component), insurance service expenses (that excludes the repayment of any investment components) and insurance finance income or expenses; and
- Discloses information to enable users of the financial statements to assess the effect that contracts within the scope of PFRS 17 have on the financial position, financial performance and cash flows of an entity.

On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted. The new standard is not applicable to the Company since it has no activities that are predominantly connected with insurance or issue insurance contracts.

Deferred effectivity

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

These amendments are originally effective from annual periods beginning on or after January 1, 2016. This mandatory adoption date was later on deferred indefinitely pending the final outcome of the IASB's research project on International Accounting Standards 28. Adoption of these amendments when they become effective will not have any impact on the financial statements.

Deferral of adoption of PFRS 9

In 2022 and 2021, the Company continues to apply the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 *Applying PFRS 9 with PFRS 4* issued in 2016. The temporary exemption from applying the PFRS 9 is applicable until the mandatory effectivity of PFRS 17 for entities whose activities are predominantly connected with issuing contracts within the scope of PFRS 4. The predominance test, as required by the standard, was performed using the Statement of Financial Position as of December 31, 2018. Accordingly, the Company's gross liabilities arising from insurance contracts within the scope of PFRS 4 is equivalent to 82% of the total carrying amount of all its liabilities. No re-assessments have been performed at subsequent date because there was no substantial change in the business of Company that would require such re-assessment.

As the Company is eligible to apply the temporary exemption from applying PFRS 9, the Board of Directors decided to align the effective date of PFRS 9 to the mandatory adoption date of PFRS 17. The following information on fair value disclosure, credit risk exposure and credit concentrations are presented as required by the amended standard.

(i) The fair value of financial assets at December 31, 2022 and 2021 classified between those that meet and those that does not meet the Solely Payment of Principal and Interest (SPPI) criteria and the changes in fair value are presented as follow:

	Fair values as of December 31, 2022		Fair values as of December 31, 2021		Fair value changes in 2022	
	Meet the SPPI test	Does not meet the SPPI test	Meet the SPPI test	Does not meet the SPPI test	Meet the SPPI test	Does not meet the SPPI test
Loans and receivables:						
Cash and cash equivalents*	P 1,454,427,056	P -	P 1,191,783,241	P -	P 262,643,815	P -
Short-term bank investments	90,663,621	-	123,235,348	-	(32,571,727)	-
Accrued investment income	5,494,144	-	2,623,877	-	2,870,267	-
Insurance balances receivable	1,075,402,302	-	857,413,608	-	217,988,694	-
Claims and losses recoverable	60,536,745	-	12,186,066	-	48,350,679	-
Other assets	3,596,802	-	4,430,990	-	(834,188)	-
AFS - equity securities	-	182,031	-	225,657	-	(43,626)
HTM - gov't securities	1,198,737,553	-	1,151,981,527	-	46,756,026	-
	P 3,888,858,223	P 182,031	P 3,343,654,657	P 225,657	P 545,203,566	P (43,626)

*Excludes cash on hand

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.

(ii) Information about the credit risk exposure of financial assets that meets the SPPI test is as follows:

	December 31, 2022				
	Neither Past Due nor Impaired		Past Due but Unimpaired	Impaired	Total
	Rated	Unrated			
Loans and receivables:					
Cash and cash equivalents*	P 999,630,156	P 454,796,900	P -	P -	P 1,454,427,056
Short-term bank investments	88,394,345	2,269,276	-	-	90,663,621
Accrued investment income	1,243,276	4,250,868	-	-	5,494,144
Insurance balances receivable	-	1,075,402,302	-	-	1,075,402,302
Claims and losses recoverable	-	60,536,745	-	-	60,536,745
Other assets	-	3,596,802	-	-	3,596,802
HTM - gov't securities	-	1,198,737,553	-	-	1,198,737,553
	P 1,089,267,777	P 2,799,590,446	P -	P -	P 3,888,858,223

*Excludes cash on hand

	December 31, 2021				
	Neither Past Due nor Impaired		Past Due but		
	Rated	Unrated	Unimpaired	Impaired	Total
Loans and receivables:					
Cash and cash equivalents*	P 1,022,300,281	P 169,482,960	P -	P -	P 1,191,783,241
Short-term bank investments	117,923,285	5,312,063	-	-	123,235,348
Accrued investment income	330,576	2,293,301	-	-	2,623,877
Insurance balances receivable	-	857,413,608	-	-	857,413,608
Claims and losses recoverable	-	12,186,066	-	-	12,186,066
Other assets	-	4,430,990	-	-	4,430,990
HTM - gov't securities	-	1,167,438,040	-	-	1,167,438,040
	P 1,140,554,142	P 2,218,557,028	P -	P -	P 3,359,111,170

Excludes cash on hand

The ratings used above is consistent with the ratings used in Note 7.

(iii) Information about the credit concentration of financial assets that meets the SPPI test is as follows:

	December 31, 2022			
	Government	Financial Institutions	All Others	Total
Loans and receivables:				
Cash and cash equivalents*	P -	P 1,454,427,056	P -	P 1,454,427,056
Short-term bank investments	-	90,663,621	-	90,663,621
Accrued investment income	3,614,194	1,879,950	-	5,494,144
Insurance balances receivable	-	-	1,075,402,302	1,075,402,302
Claims and losses recoverable	-	-	60,536,745	60,536,745
Other assets	-	-	3,596,802	3,596,802
HTM - gov't securities	1,198,737,553	-	-	1,198,737,553
	P 1,202,351,747	P 1,546,970,627	P 1,139,535,849	P 3,888,858,223

Excludes cash on hand

	December 31, 2021			
	Government	Financial Institutions	All Others	Total
Loans and receivables:				
Cash and cash equivalents*	P -	P 1,191,783,241	P -	P 1,191,783,241
Short-term bank investments	-	123,235,348	-	123,235,348
Accrued investment income	2,222,819	401,058	-	2,623,877
Insurance balances receivable	-	-	857,413,608	857,413,608
Claims and losses recoverable	-	-	12,186,066	12,186,066
Other assets	-	-	4,430,990	4,430,990
HTM - gov't securities	1,167,438,040	-	-	1,167,438,040
	P 1,169,660,859	P 1,315,419,647	P 874,030,664	P 3,359,111,170

**Excludes cash on hand*

5. Summary of Significant Estimates and Judgments

The Company makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the next financial year. 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.

(i) Judgments

The following judgments were applied which have the most significant effect on the amounts recognized in the financial statements.

Classification of investments
In classifying its financial assets, the Company follows the guidance of PAS 39. In making the judgment, the Company evaluates its intention, marketability of the instrument and its ability to hold the investments until maturity.

For non-derivative financial assets with fixed determinable payments and fixed maturity as held-to-maturity which requires significant judgments, the Company evaluates its intention and ability to hold its investments in bonds up to maturity as well as the requirement of the regulatory agency.

If the Company fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value, not amortized cost.

Investments are classified in the statements of financial position as follows:

	2022	2021
Available-for-sale	P **182,031**	P 225,657
Held-to-maturity	**1,207,540,991**	1,151,981,527

Impairment of Available-for-sale financial assets
In making a judgment on whether an investment is impaired, 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 of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its costs or where there are objective evidences that impairment exists. The Company evaluates other factors including normal volatility in share prices for quoted securities and the future cash flows and company's operating history for unquoted securities.

If assumptions are made regarding the duration and extent to which the fair value is less than cost, the Company would suffer an additional loss representing the write down of cost to its fair value.

As of December 31, 2022, and 2020, AFS investments amounted to P182,031 and P225,657, respectively. *(see Note 9)*

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

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

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

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

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

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

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

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

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

Impairment of investment property and property and equipment
The Company assesses at each reporting date whether there is an indication that the investment property and property and equipment may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount

of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The carrying amount of investment properties amounted to P80.85 million and P80.92 million as of December 31, 2022 and 2021, respectively *(see Note 12)*. The carrying amount of property and equipment amounted to P384.14 million and P358.70 million as of December 31, 2022 and 2021, respectively. *(see Note 13)*

Distinction between investment properties and owner-occupied properties
The Company determines whether a property qualifies as investment property or owner-occupied properties. In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately at the reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment.

Determination of lease arrangements
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases.

Rent expense charged to operations amounted to P11.8 million in 2022 and P12.3 million in 2021. *(see Note 27)*

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

The carrying value of deferred tax assets recognized in the statement of financial position amounted to P85.1 million in 2022 and P37.2 million in 2021. (*see Note 29*)

(ii) Estimates

Liability for insurance claims
The estimation process for insurance claims involves estimation of reserve of outstanding reported claims and estimation of additional reserves for IBNR and expected future movements in the estimated ultimate liabilities associated with outstanding reported claims incurred but not enough reported (IBNER). Reported claims are set and periodically reviewed by the claims department. IBNR and IBNER reserves are determined by the Company after taking into account the certifying actuary's assessment. The total claim liabilities are subject to a quarterly actuarial review and a formal actuarial report is provided on the adequacy of the Company's claim liabilities. In forming their view on the adequacy of the reported claims, the actuary uses a variety of statistical projection techniques like the Incurred Chain Ladder/Development Approach (IDA), the Paid Chain Ladder Development Method (PDA), the Bornhuetter-Ferguson Incurred Approach (BFIA) and the Bornhuetter-Ferguson Paid Approach (BFPA).

Under the IDA, incurred losses by accident year are multiplied by appropriate loss development factors to estimate ultimate losses. The PDA is similar to IDA. Paid loss development factors are applied to paid losses to estimate ultimate losses.

Under the BFIA, actual incurred losses and expected unreported losses are added to estimate the ultimate losses. Under the BFPA, actual paid losses and expected unpaid losses are to be added to estimate the ultimate losses. The initial ultimate loss estimates required for the BFIA and BFPA were based on selected loss ratios.

For all the approaches, the loss development factors are based on the Company's historical loss experience supplemented with industry triangles.

Claims reserve is separately analysed by class of business and it is intended to provide a 75% percentile level of sufficiency using the Stochastic Chain Ladder method. This methodology is commonly used in calculating claims reserve at various confidence levels. The Company's historical combined development triangles were used in estimating the claims development factors at the expected and 75% confidence level. The age-to-age and cumulative development factors follow a lognormal distribution.

As of December 31, 2022 and 2021, gross liability for insurance claims amounted to P314.3 million and P132.3 million, respectively. *(see Note 17)*

Estimating fair values of AFS investments
The fair value of financial instruments traded in active markets is based on quoted market prices as at the reporting date. If the financial instrument is not traded in an active market, the fair value is determined using valuation techniques or other published price quotations. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by management. If the results of valuation techniques do not reflect fair values, financial instruments are carried at cost. Changes in assumptions about these factors could affect reported fair values of financial instruments.

As of December 31, 2022, and 2021, AFS investments amounted to P182,031 and P225,657, respectively. *(see Note 9)*

Estimating allowance for probable losses on receivables
The Company maintains allowance for probable losses at a level considered adequate to provide for potential uncollectible insurance receivables. The level of allowance for probable losses is evaluated by management on the basis of factors affecting collectability of the receivables. In addition, a review of the accounts designed to identify accounts to be provided with allowance, is made on a continuing basis.

Estimating useful lives of property and equipment and investment properties
The Company reviews annually the estimated useful lives of property and equipment, based on the period on which the assets are expected to be available for use. It is possible that future results of operation could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and decrease the related asset account.

The carrying value of investment properties as of December 31, 2022 and 2021 amounted to P80.85 million and P80.92 million, respectively. (*see Note 12*)

The carrying value of property and equipment as of December 31, 2022 and 2021 amounted to P384.14 million and P358.70 million, respectively. (*see Note 13*)

Estimating retirement benefits
The determination of the Company's obligation and cost for retirement and other retirement benefits is dependent on selection of certain assumptions used by actuaries in computing such amounts. The assumptions as discussed in Note 28 are believed to be reasonable and appropriate for the Company although actual experience or significant changes in assumption may affect retirement benefits and asset/obligation.

Retirement benefit cost charged to operations amounted to P17,879,642 and P16,708,685 in 2022 and 2021, respectively. (*see Note 28)*

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

6. Fair Value Measurement

The fair value for assets and liabilities traded in active market at the reporting date is based on their quoted market price. For all other assets and liabilities not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which market observable prices exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instruments or based on a valuation technique, the Company recognizes the difference between the transaction price and fair value in the statement of income unless it qualifies for recognition as some other type of asset.

Assets and liabilities measured at fair value and those which are not measured at fair value but fair value is required to be disclosed are categorized in a manner discussed below:

Level 1: Quoted market prices (unadjusted) in an active market for identical instruments.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table presents the carrying amounts and fair values of the Company's asset measured at fair value and asset for which fair value is disclosed and the corresponding fair value hierarchy:

	2022			
		Fair Value		
	Carrying Amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value:				
Available-for-sale investments	P 182,031	P 182,031	P -	P -
Condominium units*	146,624,778	-	-	146,624,778
Assets for which Fair Value is Disclosed:				
Investment properties	80,854,000	-	-	80,854,000
Held-to-maturity investments	1,207,540,991	1,198,737,553	-	-
	P 1,435,201,800	P 1,198,919,584	P -	P 227,478,778

** Included as part of Property and equipment. (see Note 13)*

	2021			
		Fair Value		
	Carrying Amount	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value:				
Available-for-sale investments	P 225,657	P 225,657	P -	P -
Condominium units*	152,276,540	-	-	152,276,540
Assets for which Fair Value is Disclosed:				
Investment properties	80,924,000	-	-	80,924,000
Held-to-maturity investments	1,151,981,527	1,167,438,040	-	-
	P 1,385,407,724	P 1,167,663,697	P -	P 233,200,540

** Included as part of Property and equipment. (see Note 13)*

The Company used the following techniques to determine fair value measurements:

- *Available-for-sale and Held-to-maturity investments.* Fair values are based on quoted market prices from active markets classified under Level 1 category.

- *Condominium unit.* The fair value of condominium unit was estimated based on the appraisals performed by an independent, professionally qualified property appraiser and was determined with reference to the latest transacted prices of identical or similar properties. The fair valuation is classified under Level 3 category.

  The significant unobservable inputs used in the fair value measurement of the Company's Condominium units (included under "Property and equipment" account) are the estimated net price per square meter and various factors such as size, location, and utility, among others. Significant increases (decreases) in the estimated net price per square meter in isolation would result in a significantly higher (lower) fair value measurement. Further, choosing comparable with different inputs would result in a significantly different fair value measurement.

The Company has determined that the current use of the condominium units classified as property and equipment as at December 31, 2022 and 2021 is its highest and best use.

- *Investment properties.* The fair value of investment properties was estimated using sales comparison approach where fair value was determined with reference to the latest transacted prices of identical or similar properties. The fair valuation is classified under Level 3 category.

  The significant unobservable inputs used in the fair value measurement of the Company's Investment properties are the estimated net price per square meter and various factors such as size, location, and utility, among others. Significant increases (decreases) in the estimated net price per square meter in isolation would result in a significantly higher (lower) fair value measurement. Further, choosing comparables with different inputs would result in a significantly different fair value measurement.

  The highest and best use of investment property as at December 31, 2022 and 2021 is that of commercial use.

There were no transfers between Level 1, Level 2, and Level 3 fair value measurements in 2022 and 2021.

The table below presents the financial assets and liabilities whose carrying amounts approximate their fair values as at December 31, 2022 and 2021:

Financial Assets		2022		2021
Cash and cash equivalents*	P	**1,454,427,056**	P	1,191,783,241
Short-term bank investments		**90,663,621**		123,235,348
Insurance balances receivable		**1,075,402,302**		857,413,608
Claims and losses recoverable		**60,536,745**		12,186,066
Accrued investment income		**5,494,144**		2,623,877
Other assets		**3,596,802**		4,430,990
	P	**2,690,120,670**	P	2,191,673,130
Financial Liabilities				
Insurance claims payable	P	**314,327,153**	P	132,259,892
Reinsurance liabilities		**23,290,503**		14,954,443
Accounts payable and accrued expenses**		**160,014,794**		120,767,877
	P	**497,632,450**	P	267,982,212

* *Excluding cash on hand amounting to P92,431,169 and P93,116,360 in 2022 and 2021, respectively.*
** *Excluding nonfinancial liabilities amounting to P417,390,647 and P377,975,816 in 2022 and 2021, respectively.*

- *Current financial assets and liabilities.* The carrying values of cash and cash equivalents, short-term bank investments, insurance balances receivable, claims and losses recoverable, accrued investment income, accounts payable and accrued expenses, reinsurance liabilities and insurance claims payable approximate their fair values due to the short-term nature of these financial instruments.

- *Noncurrent assets.* The carrying amount of other assets approximates their fair value. Management believes that the effect of discounting the future receipts from these instruments using the prevailing market rates is insignificant.

7. Management of Insurance risk, Financial risk and Capital

Insurance Risk

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

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or 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. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Apart from the Company's risk management function, regulators also play a vital role in the insurance industry in ensuring that policy holders and creditors are assured of any claims that may arise within the term of the policy. The Insurance Commission (IC) imposes (i) Risk-based capital framework that will effectively manage the equity requirement of the Company (ii) Margin of solvency which requires an appropriate ratio of admitted assets over admitted liabilities (iii) A mandatory reserve of highly-liquid debt instruments to answer the claims of policyholders and creditors (iv) and minimum statutory net worth to streamline the operation of insurance industry.

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

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured events. Moreover, Excess of Loss (XOL) Reinsurance treaties are utilized to cushion any unexpected losses that may occur. Other reinsurance facility entered includes surplus treaties and facultative reinsurance.

The concentration of insurance claims, gross and net of reinsurers' share as of December 31, 2022 and 2021 is as follows:

	2022				2021			
('000 omitted)	Gross*	Share of Reinsurer	Net Liability	%	Gross*	Share of Reinsurer	Net Liability	%
Fire	P 14,645	P 9,829	P 4,816	19%	P 23,601	P 6,288	P 17,313	26%
Motor car	12,179	-	12,179	49%	46,376	-	46,376	70%
Accident	44	-	44	0%	118	-	118	0%
Other lines	35,134	27,414	7,720	31%	5,341	2,881	2,460	4%
	P 62,002	P 37,243	P 24,759	100%	P 75,436	P 9,169	P 66,267	100%

*Amounts are net of IBNR, Mfad and Claims Handling Expenses amounting to P252.325 million in 2022 and P56.823 million in 2021

Valuation Standards for Non-life Insurance Companies

On December 28, 2016, IC issued Circular Letter 2016-67 pertinent to valuation standards for non-life insurance policy reserves. The valuation reserve is premised on the following basic assumptions:

- The valuation of policy reserves shall be based on the Company's actual historical experience and/or industry data. The projection of future claims shall be based on the loss development triangles as well as the information gathered from the underwriting and claims department;
- The valuation is to be conducted by an IC-accredited actuary;
- The reserves shall be composed of premiums and claims liabilities both determined using the best estimate assumption, with an appropriate Margin for Adverse Deviation (MfAD) for expected future experience.
- Premium liabilities for each class of business shall be determined as the higher of Unearned Premium Reserve (UPR), calculated using the 24th method and Unexpired Risk Reserve (URR). URR refers to the amount of reserve required to cover future claims, commission and expenses, at a designated level of confidence, that are expected to emerge from an unexpired period cover.
- Claims liabilities shall be calculated as the sum of outstanding claims reserve, claims handling expense and Incurred But Not Reported (IBNR), with MfAD.

On the same date, IC issued Circular Letter 2016-69 which relaxes the implementation of Circular 2016-67 and allows to set up premium liabilities the UPR instead of the higher of the UPR and URR and MfAD was conditionally set to 50% for the period of 2022 and 2021.

Financial Risk

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments is interest rate risk.

Credit Risk

Credit risk is risk due to uncertainly in a counterparty's (also called an obligor) ability to meet its obligation.

The table below shows the gross maximum exposure to credit risk of the Company as of December 31, 2022 and 2021.

	2022	2021
Cash and cash equivalents*	P 1,454,427,056	P 1,191,783,241
Short-term bank investments	90,663,621	123,235,348
Financial Investments		
AFS - equity securities	182,031	225,657
HTM - gov't securities	1,207,540,991	1,151,981,527
Accrued investment income	5,494,144	2,623,877
Insurance balances receivable	1,075,402,302	857,413,608
Claims and losses recoverable	60,536,745	12,186,066
Other assets	3,596,802	4,430,990
	P 3,897,843,692	P 3,343,880,314

**Excludes cash on hand*

The credit quality of group of financial assets are as follows:

(i) Cash in bank, Cash equivalents and Short-term investments
Substantial portion of the Company's Cash in banks, Cash equivalents and Short-term investments are maintained in universal and commercial banks thereby limiting the credit risk. Limits are placed on thrift and lower-tiered banks. This is consistent with Company's internal policy on deposit maintenance. Cash-in-bank, cash equivalents and short-term investments classified by type of banks are as follows:

		2022		2021
Universal banks	P	**900,938,713**	P	708,286,864
Commercial banks		**202,936,303**		187,708,906
Thrift and rural banks		**350,552,040**		295,787,471
	P	**1,454,427,056**	P	1,191,783,241

(ii) Available-for-sale and Held-to-maturity Investments
The credit risk on investments represents the risk of actual default of the issuer. This risk is managed through limits which takes into account the type of credit exposure, credit quality and, where needed, maturity, and through regular monitoring and early warning systems.

Limits on government securities is guided by existing circulars issued by the Insurance Commission. Investment exposures and limits are monitored on a regular basis.

(iii) Insurance, Reinsurance and Other Receivables
Credit risk on Insurance, reinsurance and other receivables reflects possible losses due to unexpected default or deterioration in the credit standing of counterparties and debtors. The scope of credit risk alleviation includes risk-mitigating contracts on reinsurance arrangements and setting up maximum credit terms with agents.

Credit risk can arise also due to the purchase of reinsurance or other risk mitigation contracts. The Company minimizes this risk through policies on counterparty selection, collateral requirements and diversification. This risk is mitigated through close monitoring of outstanding counterparty default positions. Diversification and avoidance of low rated exposures are key elements in the mitigation of this risk.

The Company also limits 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 assets and liabilities in the Statement of financial position, 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 settled on a net basis. The Company maintains a normal credit term of 90 days for insurance balances receivable. Past due are those accounts which are outstanding beyond 90 days.

Exposure to credit risk on other receivable is low considering that these receivables is collected through salary deduction or deducted from the commissions due to them, as the case maybe. These counterparties have a good credit standing with no history of default.

Impairment for specific credit risk is established if there is objective evidence that the Company will not be able to collect all amounts due in accordance with contractual terms. The amount of the impairment is the difference between the carrying amount and the recoverable amount. Conditions for write-off may be that the debtor's bankruptcy proceedings have been reached and/or guarantors are insolvent, all normal recovery efforts have been exhausted, or the economic loss period (i.e., the period within which all expenses will exceed the recoverable amount) has been reached.

The credit quality of the Company's assets exposed to credit risk as of December 31, 2022 and 2021 is as follows:

	As of December 31, 2022				
	Neither past due nor impaired		Past due but	Past due	
	High grade	Standard grade	unimpaired	& impaired	Total
Cash and cash equivalents*	P 1,454,427,056	P -	P -	P -	P 1,454,427,056
Short-term bank investments	90,663,621	-	-	-	90,663,621
Financial Investments					
AFS - equity securities	-	182,031	-	-	182,031
HTM - gov't securities	1,207,540,991	-	-	-	1,207,540,991
Accrued investment income	5,494,144	-	-	-	5,494,144
Insurance balances receivable	-	-	1,075,402,302	-	1,075,402,302
Claims and losses recoverable	-	-	60,536,745	-	60,536,745
Other assets	-	3,596,802	-	-	3,596,802
	P 2,758,125,812	P 3,778,833	P 1,135,939,047	P -	P 3,897,843,692

*Excludes cash on hand

	As of December 31, 2021				
	Neither past due nor impaired		Past due but	Past due	
	High grade	Standard grade	unimpaired	& impaired	Total
Cash and cash equivalents*	P 1,191,783,241	P -	P -	P -	P 1,191,783,241
Short-term bank investments	123,235,348	-	-	-	123,235,348
Financial Investments					
AFS - equity securities	-	225,657	-	-	225,657
HTM - gov't securities	1,151,981,527	-	-	-	1,151,981,527
Accrued investment income	2,623,877	-	-	-	2,623,877
Insurance balances receivable	-	-	857,413,608	-	857,413,608
Claims and losses recoverable	-	-	12,186,066	-	12,186,066
Other assets	-	4,430,990	-	-	4,430,990
	P 2,469,623,993	P 4,656,647	P 869,599,674	P -	P 3,343,880,314

*Excludes cash on hand

Financial assets were graded as follows:

High grade cash and cash equivalents are short-term investments and working cash fund placed, invested, or deposited in banks belonging to the top banks in the Philippines in terms of resources and profitability.

High grade AFS investments are equity securities belonging to Philippine Stock Exchange Index with regular trading transactions. Standard grade accounts are equity securities not within the scope of high grade accounts.

High grade HTM investments are securities issued and guaranteed by the Philippine government.

Other high grade financial assets are accounts considered to be of high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

The aging analyses of past due but unimpaired receivables are as follows:

2022	Direct and assumed accounts: Due from agents & brokers	Due from ceding companies	Funds held by ceding companies	Total	Reinsurance loss recoverable: Paid	Unpaid	Total
30 days past due	P 637,767,349	P -	P -	P 637,767,349	P -	P 9,978,825	P 9,978,825
60 days past due	372,030,954	2,350,455	-	374,381,409	-	24,947,063	24,947,063
over 60 days	53,147,279	1,007,338	9,098,927	63,253,544	10,642,620	14,968,237	25,610,857
	P 1,062,945,582	P 3,357,793	P 9,098,927	P 1,075,402,302	P 10,642,620	P 49,894,125	P 60,536,745

2021	Direct and assumed accounts: Due from agents & brokers	Due from ceding companies	Funds held by ceding companies	Total	Reinsurance loss recoverable: Paid	Unpaid	Total
30 days past due	P 227,738,741	P -	P -	P 227,738,741	P -	P 1,974,332	P 1,974,332
60 days past due	232,098,118	614,362	-	232,712,480	-	2,961,497	2,961,497
over 60 days	386,833,431	1,828,927	8,300,029	396,962,387	-	7,250,237	7,250,237
	P 846,670,290	P 2,443,289	P 8,300,029	P 857,413,608	P -	P 12,186,066	P 12,186,066

The table below provides information on the concentration of credit risk as of December 31 by type of financial assets:

December 31, 2022	Cash and cash equivalents	Short-term investments	Available-for-sale	Held-to-maturity	Receivables and others	Total
Insurance	P -	P -	P -	P -	P 1,135,939,047	P 1,135,939,047
Financial institutions	1,454,427,056	90,663,621	-	-	1,879,950	1,546,970,627
Government	-	-	-	1,207,540,991	3,614,194	1,211,155,185
Holding companies	-	-	20,380	-	-	20,380
Telecommunications	-	-	82,225	-	-	82,225
Mining	-	-	58,156	-	-	58,156
Others	-	-	21,270	-	3,596,802	3,618,072
	P 1,454,427,056	P 90,663,621	P 182,031	P 1,207,540,991	P 1,145,029,993	P 3,897,843,692

	December 31, 2021					
	Cash and cash equivalents	Short-term investments	Available-for-sale	Held-to-maturity	Receivables and others	Total
Insurance	P -	P -	P -	P -	P 869,599,674	P 869,599,674
Financial institutions	1,191,783,241	123,235,348	-	-	401,058	1,315,419,647
Government	-	-	-	1,151,981,527	2,222,819	1,154,204,346
Holding companies	-	-	17,903	-	-	17,903
Telecommunications	-	-	82,225	-	-	82,225
Mining	-	-	104,259	-	-	104,259
Others	-	-	21,270	-	4,430,990	4,452,260
	P 1,191,783,241	P 123,235,348	P 225,657	P 1,151,981,527	P 876,654,541	P 3,343,880,314

Liquidity Risk

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

Liquidity risk is a risk due to uncertain liquidity. An institution may suffer liquidity problem when its credit rating falls. The Company is also exposed to liquidity risk if markets on which it depends on are subject to loss of liquidity.

The table below summarizes the maturity profile of the Company's liabilities as of December 31, 2022 and 2021, based on undiscounted contractual payments.

2022	**On demand**	**Not later than one month**	**Later than 1 month & not later than 3 months**	**Later than 3 months & not later than 1 year**	**Later than one year**	**Total**
Accounts payable						
and accrued expenses*	**P 96,008,877**	**P 32,002,959**	**P 24,002,219**	**P 8,000,739**	**P -**	**P 160,014,794**
Insurance claims payable	**157,163,576**	**78,581,789**	**47,149,073**	**31,432,715**	**-**	**314,327,153**
Reinsurance liabilities	**11,645,251**	**5,822,627**	**3,493,575**	**2,329,050**	**-**	**23,290,503**
	P 264,817,704	**P 116,407,375**	**P 74,644,867**	**P 41,762,504**	**P -**	**P 497,632,450**

*Excluding nonfinancial liabilities amounting to P417,390,647.

2021	On demand	Not later than one month	Later than 1 month & not later than 3 months	Later than 3 months & not later than 1 year	Later than one year	Total
Accounts payable						
and accrued expenses*	P 72,460,726	P 24,153,575	P 18,115,182	P 6,038,394	P -	120,767,877
Insurance claims payable	49,532,643	34,064,161	29,197,852	19,465,236	-	132,259,892
Reinsurance liabilities	5,600,588	3,851,587	3,301,361	2,200,907	-	14,954,443
	P 127,593,957	P 62,069,323	P 50,614,395	P 27,704,537	P -	P 267,982,212

*Excluding nonfinancial liabilities amounting to P377,975,816.

Market Risk

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

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Company manages market risk by evenly distributing capital among investment instruments, sectors and geographical areas. The Company structures the level of market risk it accepts through a sound market risk policy based on specific guidelines. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation reporting and portfolio limit structure. Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures to the IC, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

Sensitivity analysis of market risk exposure is as follows:

i. Currency risk
Currency risk is the risk of losing money due to unfavorable changes in foreign exchange rates. The Company has no foreign currency denominated financial instruments. Thus, it has no exposure to currency risk.

ii. Interest rate risk
Interest rate risk is the risk that the value or 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 risk.

The Company's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

Exposures to interest rate risk comprise the following:

2022 (*'000 omitted*)	Interest rate	Due in 1 year	Due in 2-5 years	Due in Over 5 years	Total
Financial assets that are:					
Cash and cash equivalents	0.0125%-6.9%	P 1,454,427	P -	P -	P 1,454,427
Short-term bank investments	0.0125%-3.5%	90,664	-	-	90,664
Held to maturity	2.375%-6.25%	562,508	645,033	-	1,207,541
Funds held:					
By ceding companies	1%	-	9,099	-	9,099

2021 ('000 omitted)	Interest rate		Due in			
			1 year	2-5 years	Over 5 years	Total
Financial assets that are:						
Cash and cash equivalents	0.0125% - 0.0625%	P	1,191,783 P	- P	- P	1,191,783
Short-term bank investments	0.125% - 6%		123,235	-	-	123,235
Held to maturity	3.2% - 6.25%		667,210	484,772	-	1,151,982
Funds held:						
By ceding companies	1%		8,300	-	-	8,300

As of December 31, 2022 and 2021, financial instruments exposed to variable interest rate risk are cash in banks consisting of savings and short-term deposit accounts. Held to maturity investment are subject to fixed coupon rates. There are no items that are impacted with interest rate risk which are charged directly to equity.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax.

	Changes in basis points	effect on income before income tax
2022	**+100 P**	**26,098,159**
	- 100	**(26,098,159)**
2021	+100 P	22,492,845
	- 100	(22,492,845)

There is no other impact on the Company's equity other than those already affecting the profit and loss.

iii. 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 price, principally, AFS financial assets.

Financial assets carried at fair value consist only of available-for-sale investments. Changes in market values do not affect profit or loss.

The company has no material exposure on volatility rates of the fair values of Investments held at fair value and it has no material impact on the Company's net income and equity.

iv. Operational risk
Operational risk is the risk of loss from system failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risk but initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes. Business risk such as changes in environment, technology and industry are monitored through the Company's strategic planning and budgeting processes.

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

The Company regards the following as the capital it manages as at December 31, 2022 and 2021.

		2022	2021
Share capital	P	**843,750,000** P	600,000,000
Contributed surplus		**500,000**	500,000
Retained earnings		**1,766,464,668**	1,625,168,087
	P	**2,610,714,668** P	2,225,668,087

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

Pursuant to IC Circular No. 2015-02-A, dated January 13, 2015 issued on the basis of Republic Act 10607 known as the Revised Insurance code, domestic insurance companies under the supervision of IC must have a networth of at least P250 million by December 31, 2013. The minimum networth of a particular company shall remain unimpaired at all times and shall increase to the amounts as follows:

	Minimum networth	Compliance date
P	550,000,000	December 31, 2016
	900,000,000	December 31, 2019
	1,300,000,000	December 31, 2022

Insurance Memorandum Circular 22-2008 further clarified that the paid-up capital should remain intact and unimpaired at all times, the statements of financial position should show that the net worth is at least equal to the actual paid up capital.

As at December 31, 2022 and 2021, the Company is in compliance with the required minimum paid-up capital. The statutory net worth is based on Regulatory Accounting Policies and may be determined only after the IC has examined the accounts of the Company.

Risk-based Capital Requirement
Insurance Memorandum Circular (IMC) 7-2006 provides for the risk-based capital (RBC) framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risk. All non-life insurance companies are annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the Company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio is calculated as Net worth divided by the RBC requirement. Net worth shall include the (i) paid-up capital, (ii) other capital surplus and (iii) Special surplus funds to the extent authorized by IC.

Internal calculations of RBC ratio as at December 31, 2022 and 2021 revealed the following:

		2022	2021
Net worth	P	**2,570,874,732** P	2,196,929,717
RBC requirement		**234,421,463**	155,090,309
RBC Ratio		**1097%**	1417%

Companies not meeting the required RBC ratio will subjected to an Action Event depending on level the RBC ratio as follows:

- Regulatory Action Event – the RBC is less than 75% but not below 50%, the Company will be required an RBC plan within 45 days;
- Authorized Control Event – the RBC is less than 50% but not below 35%, the IC will be authorized to place the Company under regulatory control;
- Mandatory Control Event – the RBC is less than 35%, the IC is required to place the Company under regulatory control.

The computation of RBC is based on the regulatory accounting policy in accordance the Philippine Insurance Code. The RBC can be determined only after the IC has examined the accounts of the Company.

8. Cash and cash equivalents and Short-term bank investments

This account consists of:

		2022		2021
Cash in banks				
Current and savings account	P	121,188,816	P	304,713,851
Special savings account and time deposits		1,333,238,240		887,069,390
Cash on hand		92,431,169		93,116,360
Total cash and cash equivalents		1,546,858,225		1,284,899,601
Short-term bank investments		90,663,621		123,235,348
	P	1,637,521,846	P	1,408,134,949

Cash in banks including special savings accounts and time deposits earn interest at prevailing bank interest rates ranging from 0.0125% to 6.9% and 0.0125% to 0.0625% in 2022 and 2021, respectively. Short-term bank investments bear effective annual interest rates ranging from 0.0125% to 3.5% and 0.125% to 6.0% in 2022 and 2021, respectively.

Interest income earned on these deposits amounted to P14,998,467 in 2022 and P3,009,486 in 2021. (*see Note 26*)

Significant portion of cash on hand represents claims fund held by various branches. They are held to cover legitimate claims against the Company.

9. Investments

The reconciliation of the carrying amounts of financial assets at the beginning and at the end of the year is shown below.

	December 31, 2022					
		AFS		HTM		Total
Balance, January 1	P	225,657	P	1,151,981,527	P	1,152,207,184
Acquisition		-		714,837,161		714,837,161
Sale/maturity		-		(667,210,202)		(667,210,202)
Changes in fair value		(43,626)		-		(43,626)
Amortization of premium/discount		-		7,932,505		7,932,505
Balance, December 31	P	182,031	P	1,207,540,991	P	1,207,723,022

	December 31, 2021				
		AFS		HTM	Total
Balance, January 1	P	213,052	P	1,132,919,692 P	1,133,132,744
Acquisition		-		530,471,629	530,471,629
Sale/maturity		-		(516,208,321)	(516,208,321)
Changes in fair value		12,605		-	12,605
Amortization of premium/discount		-		4,798,527	4,798,527
Balance, December 31	P	225,657	P	1,151,981,527 P	1,152,207,184

(i) Available-for-sale

Available-for-sale financial assets represent equity instruments with quoted and unquoted market values. For securities with no active market, the carrying amounts are stated at cost.

Analysis of equity instruments is as follows:

		2022	2021
Acquisition cost:			
Quoted in the stock exchange	P	**44,500** P	44,500
Not quoted in the stock exchange		**21,270**	21,270
		65,770	65,770
Fair value gain:			
Quoted in the stock exchange		**116,261**	159,887
Carrying values	P	**182,031** P	225,657

The net change in fair values over the acquisition cost is reflected in the Equity section of statement of financial position, net of related tax effect.

(ii) Held-to-maturity

Held-to-maturity financial assets represent debt instruments issued by the Philippine government and private corporations. The term of the issues ranges from 2 to 6 years and earns a coupon rate ranging from 2.375% to 6.25% and 3.2% to 6.25% in 2022 and 2021, respectively.

The maturity profile of this account is presented below:

		2022	2021
Due in:			
One year	P	**562,507,920** P	667,210,202
More than one year to five years		**645,033,071**	484,771,325
Beyond five years		**-**	-
	P	**1,207,540,991** P	1,151,981,527

Pursuant to section 209 of the Insurance Code, at least 25% of minimum statutory net worth required under section 194 of Code must be invested in securities consisting of bonds or other debt instruments issued by the Philippine Government or its instrumentalities. The invested funds shall at all times be maintained free from any lien or encumbrance and shall be deposited with and held by IC for the faithful performance of the Company's obligations under its insurance contracts. This requirement was fully complied by the Company as of December 31, 2022 and 2021.

10. Insurance balances receivable

This account consists of:

		2022	2021
Due from agents and brokers	P	**1,062,945,582** P	846,670,290
Due from ceding companies		**3,357,793**	2,443,289
Funds held by ceding companies		**9,098,927**	8,300,029
	P	**1,075,402,302** P	857,413,608

Terms and conditions are as follows:

- Due from agents and brokers has a maximum term of 90 days from inception of the policy.
- Due from ceding companies carries a term of up to 120 days subject to premium payment warranty.
- Funds held by ceding companies represents portion of the premium withheld by ceding companies in accordance with reinsurance agreements and earn interest at applicable interest rates.

All Company receivables are subject to credit risk. However, the Company does not maintain any risk concentrations on these receivables. Exposures to credit risk are discussed in Note 7.

As of December 31, 2022 and 2021, management believes that the carrying amounts of the insurance balances receivable are reasonable approximation of their fair values.

11. Reinsurance assets

This account is consists of:

		2022	2021
Reserve for reinsurance premium *(Note 18)*	P	**38,400,819** P	20,036,943
Reinsurance recoverable on:			
Paid losses		**10,642,621**	-
Unpaid losses, inclusive of IBNR claims *(Note 17)*		**49,894,125**	12,186,066
	P	**98,937,565** P	32,223,009

As of December 31, 2022 and 2021, management believes that the carrying amount of reinsurance recoverable on losses is a reasonable approximation of their fair values.

12. Investment properties

The Company's investment properties include several parcels of land and properties which were acquired for investment purposes only.

The balances and movements in this account are as follows:

		2022		
		Land	Condominium unit	Total
Cost				
Balance at beginning of year	P	77,494,000 P	3,500,000 P	80,994,000
Additions		-	-	-
Balance at end of year		77,494,000	3,500,000	80,994,000
Accumulated depreciation				
Balance at beginning of year		-	70,000	70,000
Provision		-	70,000	70,000
Balance at end of year		-	140,000	140,000
Net carrying value at the end of the year	P	77,494,000 P	3,360,000 P	80,854,000

		2021		
		Land	Condominium unit	Total
Cost				
Balance at beginning of year	P	26,076,000 P	3,500,000 P	29,576,000
Additions		51,418,000	-	51,418,000
Balance at end of year		77,494,000	3,500,000	80,994,000
Accumulated depreciation				
Balance at beginning of year		-	-	-
Provision		-	70,000	70,000
Balance at end of year		-	70,000	70,000
Net carrying value at the end of the year	P	77,494,000 P	3,430,000 P	80,924,000

As of December 31, 2022 and 2021, the fair values of land and buildings were determined as follows:

Property	Location	Valuation technique	Fair value hierarchy	Observable inputs	Estimated Fair value
Land	Sta. Rosa	Sales comparison	Level 3	price per (sqm.)	6,315/ sqm
Land	Naga	Sales comparison	Level 3	price per (sqm.)	11,579/ sqm
Land	General Santos	Sales comparison	Level 3	price per (sqm.)	16,077/ sqm
Land	Zamboanga	Sales comparison	Level 3	price per (sqm.)	26,000/ sqm
Condominium unit	Manila	Sales comparison	Level 3	price per (sqm.)	90,650/ sqm

Sales comparison approach is an approach that considers available market evidences. The aforesaid approach is based on sales and listing of comparable property registered within the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable.

The properties used as basis of comparison are situated within the immediate vicinity of the subject property. The unobservable inputs to determine the market value of the property are the following: location characteristics, size and shape of the lot and the time element.

As of December 31, 2022 and 2021, Management believes that there were no events that could have materially changed the fair values of investment properties.

13. Property and equipment - net

Property and equipment consist of:

	2022							
	At Revalued Amount	At Cost						
	Condominium units	Land	Building and Improvements	Leasehold Improvements	EDP Equipment	Transportation Equipment	Office Furnitures and Equipment	Total
Gross Carrying Value								
Balances at beginning of year	P 187,350,406	P 45,211,058	P 122,870,054	P 73,489,223	P 33,317,341	P 36,496,639	P 37,016,773	P 535,751,494
Additions	-	25,000,000	16,194,861	791,001	1,710,531	1,430,500	718,536	45,845,429
Balances at end of year	187,350,406	70,211,058	139,064,915	74,280,224	35,027,872	37,927,139	37,735,309	581,596,923
Accumulated Depreciation								
Balances at beginning of year	35,073,866	-	6,545,536	43,506,209	29,933,750	30,539,280	31,455,587	177,054,228
Depreciation	5,651,762	-	2,918,646	6,535,577	1,608,226	1,091,819	2,598,193	20,404,223
Balances at end of year	40,725,628	-	9,464,182	50,041,786	31,541,976	31,631,099	34,053,780	197,458,451
Net Carrying Value	P 146,624,778	P 70,211,058	P 129,600,733	P 24,238,438	P 3,485,896	P 6,296,040	P 3,681,529	P 384,138,472

	2021							
	At Revalued Amount	At Cost						
	Condominium Units	Land	Building and Improvements	Leasehold Improvements	EDP Equipment	Transportation Equipment	Office Furnitures and Equipment	Total
Gross Carrying Value								
Balances at beginning of year	P 157,350,406	P 45,211,058	P 122,870,054	P 72,006,258	P 32,233,969	P 33,657,639	P 36,254,533	P 499,583,917
Additions	30,000,000	-	-	1,482,965	1,083,372	2,839,000	762,240	36,167,577
Balances at end of year	187,350,406	45,211,058	122,870,054	73,489,223	33,317,341	36,496,639	37,016,773	535,751,494
Accumulated Depreciation								
Balances at beginning of year	29,422,107	-	4,088,133	37,658,882	28,005,136	29,747,794	28,565,939	157,487,991
Depreciation	5,651,759	-	2,457,403	5,847,327	1,928,614	791,486	2,889,648	19,566,237
Balances at end of year	35,073,866	-	6,545,536	43,506,209	29,933,750	30,539,280	31,455,587	177,054,228
Net Carrying Value	P 152,276,540	P 45,211,058	P 116,324,518	P 29,983,014	P 3,383,591	P 5,957,359	P 5,561,186	P 358,697,266

Depreciation of property and equipment charged to operations amounted to P20,404,223 and P19,566,237 in 2022 and 2021, respectively.

The Company engaged an independent appraiser to determine the fair value of its condominium units. The latest appraisal valuation reports were dated January 4, 2018 and were estimated using the Sales Comparison Approach. In this approach, the value of condominium units is based on sales and listings of comparable condominium units. This is done by adjusting the difference between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity at different floor levels of the same building. Comparison was premised on factors such as location, size and physical attributes, selling terms, facilities offered and time element. This fair valuation is classified under the Level 3 (significant unobservable inputs). *(see Note 6)*

Generally, an increase (or decrease) in prices per square meter, will result to a higher (or lower) fair value. The same scenario will apply to changes in fair value if the size increases or decreases. Furthermore, significant developments within its neighborhood would increase fair value.

Rollforward analysis of revaluation reserve is shown below:

	2022		
	Gross of Tax	**Effect of Deferred Income Tax**	**Net of Tax**
Balance at beginning of year	**P 67,047,889**	**P (16,761,973)**	**P 50,285,916**
Depreciation	**(2,090,436)**	**522,609**	**(1,567,827)**
Balance at end of year	**P 64,957,453**	**P (16,239,364)**	**P 48,718,089**

	2021					
			Effect of Deferred			
		Gross of Tax		Income Tax		Net of Tax
Balance at beginning of year	P	69,138,325	P	(20,741,499)	P	48,396,826
Effect of change in tax rate		-		3,456,917		3,456,917
Depreciation		(2,090,436)		522,609		(1,567,827)
Balance at end of year	P	67,047,889	P	(16,761,973)	P	50,285,916

If the condominium units were measured using cost model, the carrying amount would have been P81.7 million and P85.2 million as at December 31, 2022 and 2021, respectively.

Management sees no indications of impairment and has not recognized an impairment loss on its property and equipment.

14. Deferred acquisition cost and deferred commission income

The movements during the year of this account are as follows:

	2022					
		Deferred acquisition cost		**Deferred commission income**		**Net DAC**
Balance, January 1	**P**	**191,294,588**	**P**	**5,794,247**	**P**	**185,500,341**
Net change in acquisition cost		**4,556,428**		**5,183,859**		**(627,431)**
	P	**195,851,016**	**P**	**10,978,106**	**P**	**184,872,910**

	2021					
		Deferred acquisition cost		Deferred commission income		Net DAC
Balance, January 1	P	185,141,062	P	7,655,883	P	177,485,179
Net change in acquisition cost		6,153,526		(1,861,636)		8,015,162
	P	191,294,588	P	5,794,247	P	185,500,341

As of December 31, 2022 and 2021, management believes that deferred acquisition costs are fully recoverable and that no impairment loss is necessary.

15. Accrued investment income

This account consists of:

		2022		2021
Accrued interest on:				
Cash equivalents and short-term bank placements	**P**	**1,879,950**	P	401,058
Held-to-maturity investments		**3,614,194**		2,222,819
	P	**5,494,144**	P	2,623,877

16. Other assets

This account consists of:

		2022		2021
Deposits	P	**2,410,222**	P	3,388,986
Other receivables		**1,121,897**		977,321
Security fund		**64,683**		64,683
	P	**3,596,802**	P	4,430,990

- Deposits which are carried at cost are made to secure service arrangements with utility companies. The same maybe refunded at the expiration of service agreement.
- Other receivables which include advances to employees, are payable through salary deductions.
- Security fund was created under Section 365 of Presidential Decree (PD) No. 612 as amended under PD No. 1640, to be used for payment of claims against insolvent insurance companies. The balance of the fund amounting to P64,683 in 2022 and 2021, represents the Company's contribution to the fund. The balance of the fund earns interest at rates determined by the IC annually.

Management believes that fair values of other receivables, security fund and deposits were not individually determined as the carrying amounts are reasonable approximation of fair values.

17. Insurance claims payable

Outstanding claims will become payable and materialize into claims paid as and when the amounts of insured losses suffered by policyholders were ascertained and agreed, without any contractual maturity date. The timing of future cash outflow arising from the provision is not ascertainable but is likely to fall within 1-3 years.

The provision is sensitive to many factors such as interpretation of circumstances, judicial decisions and economic conditions and is subject to uncertainties such as:

- Uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- Uncertainty as to the extent of policy coverage and limits applicable; and
- Uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring.

Movements in outstanding claims are as follows:

		2022						2021				
		Gross		**Reinsurance**		**Net**		Gross		Reinsurance		Net
Balance, January 1	P	**132,259,892**	P	**12,186,066**	P	**120,073,826**	P	133,709,525	P	6,534,415	P	127,175,110
Claims and losses incurred - net of recoveries		**1,040,318,863**		**35,800,267**		**1,004,518,596**		952,563,351		8,863,453		943,699,898
Provision for claims incurred but not recorded		**244,062,224**		**12,651,018**		**231,411,206**		41,285,887		3,016,865		38,269,022
Claims and loss paid - net of recoveries		**(1,102,313,826)**		**(10,743,226)**		**(1,091,570,600)**		(995,298,871)		(6,228,667)		(989,070,204)
Balance, December 31	P	**314,327,153**	P	**49,894,125**	P	**264,433,028**	P	132,259,892	P	12,186,066	P	120,073,826

In accordance with IC circular 2016-67, claims liabilities for both direct business, assumed treaty and reinsurance business shall be calculated as the sum of outstanding claims reserve, claims handling expense and IBNR.

Claims handling expense was computed on a net insurance basis using the Kittle's Refinement to the Classical Paid-to-Paid Ratio Method that explicitly recognized that claims handling expense is incurred as claims are reported, even if no loss payments are made.

Outstanding claims reserve shall be based on actual claims reported but have not yet been settled at year-end. IBNR is calculated based on the following methods:

1. Chain Ladder or Loss-Development Triangles Method
2. Bornhuetter-Ferguson Method
3. Expected Loss Ratio Method

MfAD is included to allow the inherent uncertainty of the best estimate of the policy reserves and to consider the variability of claims experience with a class of business, the diversification between classes of business and conservatism in the best estimate. MfAD is set to 50% for the year ended December 31, 2022 and 2021.

The actuarial valuation result for Claims liabilities for the year ended December 31, 2022 and 2021 is as follows:

	Gross			
		2022		2021
Outstanding claims reserve	**P**	**62,001,926**	P	75,436,491
Claims handling expense		**427,882**		1,180,063
Mfad		**7,835,121**		14,357,451
IBNR		**244,062,224**		41,285,887
	P	**314,327,153**	P	132,259,892

	Net			
		2022		2021
Outstanding claims reserve	**P**	**24,758,818**	P	66,267,290
Claims handling expense		**427,882**		1,180,063
Mfad		**7,835,121**		14,357,452
IBNR		**231,411,206**		38,269,022
	P	**264,433,027**	P	120,073,827

18. Reserve for unearned premiums

The analysis of this account is as follows:

	2022			2021		
	Gross Premium	**Ceded Business**	**Net Retained**	Gross Premium	Ceded Business	Net Retained
Balance, January 1	P 1,056,934,485	P 20,036,943	P 1,036,897,542	P 1,013,085,297	P 26,613,282	P 986,472,015
Policies written during the year	2,303,505,459	99,214,080	2,204,291,379	2,111,483,085	42,716,347	2,068,766,738
Premiums earned during the year	(2,315,799,354)	(80,850,203)	(2,234,949,151)	(2,067,633,897)	(49,292,686)	(2,018,341,211)
	P 1,044,640,590	P 38,400,820	P 1,006,239,770	P 1,056,934,485	P 20,036,943	P 1,036,897,542

In accordance with IC circular 2016-67, Premium liabilities for each class of business shall be determined as the higher of Unearned Premium Reserve (UPR) and Unexpired Risk Reserve (URR). UPR is calculated using the 24th method for all classes of business, on a gross of reinsurance basis. URR is calculated as the best estimate of future obligation, expenses for policy management and claims settlement cost. URR may be estimated as the unearned premium for each class of business multiplied by ultimate loss ratio and adjusted for future expenses.

The actuarial valuation result for premium liabilities for the year ended December 31, 2022 and 2021 is as follows:

	Net	
	2022	2021
UPR	**P 1,044,640,590**	P 1,036,897,541
URR		
Best estimate of future obligation	**412,554,000**	459,249,000
Maintenance expenses	**94,266,000**	98,806,000
Claims handling expense	**11,781,000**	13,630,000
Margin for adverse deviation	**124,905,497**	115,684,685
	643,506,497	687,369,685
Premium Liability (whichever is higher)*	**P 1,044,640,590**	P 1,036,897,541

** Net of reserve for reinsurance premium amounting to P38,400,820 and P20,036,943 in 2022 and 2021, respectively. (see Note 11)*

19. Reinsurance liabilities

This account consists of:

		2022		2021
Premiums due to reinsurers:				
Facultative	**P**	**15,938,770**	P	12,880,841
Treaty		**7,351,733**		2,073,602
	P	**23,290,503**	P	14,954,443

Management believes that the carrying amounts are the reasonable approximation of their fair values as of December 31, 2022 and 2021.

The movement of this account is as follows:

		2022				
		Treaty		**Facultative**		**Total**
January 1	**P**	**2,073,602**	**P**	**12,880,841**	**P**	**14,954,443**
Cessions		**14,400,039**		**49,547,386**		**63,947,425**
Settlements		**(9,121,908)**		**(46,489,457)**		**(55,611,365)**
December 31	**P**	**7,351,733**	**P**	**15,938,770**	**P**	**23,290,503**

		2021				
		Treaty		Facultative		Total
January 1	P	829,795	P	18,339,932	P	19,169,727
Cessions		7,902,249		34,814,099		42,716,348
Settlements		(6,658,442)		(40,273,190)		(46,931,632)
December 31	P	2,073,602	P	12,880,841	P	14,954,443

20. Accounts payable and accrued expenses

This account consists of:

		2022		2021
Taxes payable	P	**405,211,426**	P	366,467,936
Commission payable		**85,035,647**		66,810,045
Accrued expenses		**34,273,981**		40,323,139
Income tax payable		**12,179,221**		11,507,880
Other liabilities		**40,705,166**		13,634,693
	P	**577,405,441**	P	498,743,693

Terms and conditions are as follows:

- Taxes payable are usually settled in the following month.
- Commission payable is settled upon remittance of premium not exceeding 90 days.
- Accrued expenses are settled within 90 days.
- Other liabilities represent government mandatory contributions and employees' salary loan.

Management believes that the carrying amounts are the reasonable approximation of their fair values as of December 31, 2022 and 2021.

21. Equity

Capital stock
The Company's capital structure as of December 31, 2022 and 2021 is as follows:

	2022		2021	
	Shares	**Amount**	Shares	Amount
Preferred-P100 par value				
Authorized - 200,000 shares				
Issued and outstanding	**200,000**	**P 20,000,000**	200,000	P 20,000,000
Common shares-P100 par value				
Authorized - 12,800,000 shares in 2022 and 5,800,000 shares in 2021				
Subscribed, net of subscription receivable	**1,750,000**	**43,750,000**	-	-
Issued and outstanding				
Balance, January 1	**5,800,000**	**580,000,000**	4,800,000	480,000,000
Issuance during the year	**2,000,000**	**200,000,000**	1,000,000	100,000,000
Balance, December 31	**7,800,000**	**780,000,000**	5,800,000	580,000,000
	9,750,000	**P 843,750,000**	6,000,000	P 600,000,000

Preferred shares
Preferred shares, which were subscribed by the President and Chairman of the Board are voting, entitled to dividend at rates to be fixed by the Board, non-interest, non-cumulative, convertible to common shares under such terms to be provided by the Board, redeemable at such price and terms determined by the Board and have preference over common shares in the distribution of the assets of the Company.

Common shares
On December 21, 2021, the Board of Directors (BOD) approved the conversion of P100,000,000, advances from stockholders to 1,000,000 shares with a par value of P100 or a total par value of

P100,000,000. On the same date, the Board of Directors approved the issuance of 1,000,000 shares from the unissued shares available for subscription.

On March 18, 2022, the BOD and stockholders representing at least two-thirds (2/3) of the outstanding capital stock approved the increase of the Company's authorized capital stock from P600,000,000 divided into P580,000,000 consisting of 5,800,000 common shares of stock, and P20,000,000 consisting of 200,000 preferred shares, each with par value of P100 per share to P1,300,000,000, and the said capital stock is divided into P1,280,000,000 consisting of 12,800,000 common shares, and P20,000,000 consisting of 200,000 preferred shares, each with a par value of P100 per share. That of the P700,000,000 increase in common stock, P175,000,000 has been actually subscribed by the subscribers, and of the said subscription, P43,750,000 has been actually paid in cash. The increase in authorized capital stock was approved by the SEC on November 25, 2022.

On December 19, 2022, the Board of Directors (BOD) approved the conversion of P200,000,000, advances from stockholders to 2,000,000 shares with a par value of P100 or a total par value of P200,000,000. On the same date, the Board of Directors approved the issuance of 2,000,000 shares from the unissued shares available for subscription.

As of December 31, 2022 and 2021, the Company has 27 shareholders owning 100 or more shares each.

22. Insurance contracts – terms, assumptions and sensitivities

Terms and Conditions
The major classes of general insurance written by the Company include motor, property, casualty, marine and engineering. Risks under these policies usually cover a 12 month duration.

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

The provisions are reviewed quarterly as part of a regular ongoing process as claims experience develops; certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The measurement process primarily includes projections of future claims through the use of historical experience statistics. In certain cases, where there is a lack of reliable historical data to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by geographical area and class of business. In addition, claims are usually assessed by loss adjusters.

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

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

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

The table below indicates the impact of changes in certain key assumptions in respect of general insurance business while other assumptions remain unchanged.

% change in loss ratio	Impact on income	
	2022	2021
+5%	**+P111.7 million**	+P100.9 million
-5%	**- P111.7 million**	- P100.9 million

There is no effect on equity except on those affecting profit and loss.

Loss development table

Loss development table for the last underwriting year for 2022 and 2021, gross and net of reinsurer's share is presented below:

	Gross Losses and Claims Payable for 2022					
	2018 & prior	**2019**	**202**	**2021**	**2022**	**Total**
Estimate of cumulative claim cost:	P 3,220,984,216	P 673,559,555	P 321,358,325	P 667,009,781	P 389,943,546	P 389,943,546
One year later	4,349,133,070	1,345,134,460	591,257,257	1,064,708,953	-	1,064,708,953
Two years later	4,360,115,938	1,345,403,123	592,066,747	-	-	592,066,747
Three years later	4,360,880,535	1,345,529,708	-	-	-	1,345,529,708
Four years later	4,360,909,976	-	-	-	-	4,360,909,976
Current estimate of cummulative claims	4,360,909,976	1,345,529,708	592,066,747	1,064,708,953	389,943,546	7,753,158,930
Provision for IBNR	-	-	-	-	244,062,223	244,062,223
Cummulative payments to date	(4,321,388,144)	(1,333,335,511)	(586,700,995)	(1,055,059,764)	(386,409,586)	(7,682,894,000)
Liability recognized in the statement of financial position	P 39,521,832	P 12,194,197	P 5,365,752	P 9,649,189	P 247,596,183	P 314,327,153

	Gross Losses and Claims Payable for 2021					
	2017 & prior	2018	2019	2020	2021	Total
Estimate of cumulative claim cost:	P 2,461,794,053	P 469,226,462	P 673,559,555	P 321,358,325	P 667,009,781	P 667,009,781
One year later	3,497,334,098	844,996,154	1,345,134,460	591,257,257	-	591,257,257
Two years later	3,512,989,645	846,144,674	1,345,403,123	-	-	1,345,403,123
Three years later	3,513,860,803	846,442,248	-	-	-	846,442,248
Four years later	3,514,429,429	-	-	-	-	3,514,429,429
Current estimate of cummulative claims	3,514,429,429	846,442,248	1,345,403,123	591,257,257	667,009,781	6,964,541,838
Provision for IBNR	-	-	-	-	41,285,887	41,285,887
Cummulative payments to date	(3,468,522,357)	(835,385,635)	(1,327,828,857)	(583,533,987)	(658,296,997)	(6,873,567,833)
Liability recognized in the statement of financial position	P 45,907,072	P 11,056,613	P 17,574,266	P 7,723,270	P 49,998,671	P 132,259,892

	Net Losses and Claims Payable for 2022					
	2018 & prior	**2019**	**2020**	**2021**	**2022**	**Total**
Estimate of cumulative claim cost:	P 3,162,543,294	P 734,149,977	P 390,553,256	P 730,270,646	P 405,816,656	P 405,816,656
One year later	4,149,369,380	1,323,891,969	593,103,020	1,055,376,530	-	1,055,376,530
Two years later	4,157,193,990	1,323,518,400	591,807,241	-	-	591,807,241
Three years later	4,157,555,216	1,323,625,709	-	-	-	1,323,625,709
Four years later	4,157,366,895	-	-	-	-	4,157,366,895
Current estimate of cummulative claims	4,157,366,895	1,323,625,709	591,807,241	1,055,376,530	405,816,656	7,533,993,031
Provision for IBNR	-	-	-	-	231,411,206	231,411,206
Cummulative payments to date	(4,139,144,974)	(1,317,824,199)	(589,213,324)	(1,050,750,768)	(404,037,944)	(7,500,971,209)
Liability recognized in the statement of financial position	P 18,221,921	P 5,801,510	P 2,593,917	P 4,625,762	P 233,189,918	P 264,433,028

	Net Losses and Claims Payable for 2021					
	2017 & prior	2018	2019	2020	2021	Total
Estimate of cumulative claim cost	P 2,303,935,640	P 467,437,787	P 673,559,555	P 321,235,518	P 666,946,571	P 666,946,571
One year later	3,330,270,036	809,671,441	1,323,215,238	590,967,751	-	590,967,751
Two years later	3,345,133,174	809,908,629	1,323,483,901	-	-	1,323,483,901
Three years later	3,346,004,332	809,997,838	-	-	-	809,997,838
Four years later	3,346,572,958	-	-	-	-	3,346,572,958
Current estimate of cummulative claims	3,346,572,958	809,997,838	1,323,483,901	590,967,751	666,946,571	6,737,969,019
Provision for IBNR	-	-	-	-	38,269,022	38,269,022
Cummulative payments to date	(3,305,942,651)	(800,163,760)	(1,307,415,655)	(583,792,888)	(658,849,260)	(6,656,164,214)
Liability recognized in the statement of financial position	P 40,630,307	P 9,834,078	P 16,068,246	P 7,174,863	P 46,366,333	P 120,073,827

23. Premiums

Analysis of premiums is as follows:

	2022				
	Direct Business	**Assumed Business**	**Total**	**Ceded Business**	**Net**
Premiums Written	P 2,260,210,885	P 43,294,574	P 2,303,505,459	P 99,214,080	P 2,204,291,379
Changes in unexpired risk	15,251,318	(2,957,423)	12,293,895	(18,363,876)	30,657,771
	P 2,275,462,203	P 40,337,151	P 2,315,799,354	P 80,850,204	P 2,234,949,150

	2021				
	Direct Business	Assumed Business	Total	Ceded Business	Net
Premiums Written	P 2,074,439,640	P 37,043,446	P 2,111,483,086	P 42,716,348	P 2,068,766,738
Changes in unexpired risk	(45,491,806)	1,642,617	(43,849,189)	6,576,338	(50,425,527)
	P 2,028,947,834	P 38,686,063	P 2,067,633,897	P 49,292,686	P 2,018,341,211

24. Claims, losses and adjustment expenses

Analysis of claims, losses and adjustment expenses paid is as follows:

	For the year ended December 31, 2022				
	Direct	Assumed	Total	Recovered	Net
Claims and losses	P 1,097,005,949	P 2,929,912	P 1,099,935,861	P 10,743,226	P 1,089,192,635
Loss adjustment expenses	2,377,965	-	2,377,965	-	2,377,965
	P 1,099,383,914	P 2,929,912	P 1,102,313,826	P 10,743,226	P 1,091,570,600

	For the year ended December 31, 2021				
	Direct	Assumed	Total	Recovered	Net
Claims and losses	P 986,307,565	P 2,630,704	P 988,938,269	P 6,228,667	P 982,709,602
Loss adjustment expenses	6,360,602	-	6,360,602	-	6,360,602
	P 992,668,167	P 2,630,704	P 995,298,871	P 6,228,667	P 989,070,204

25. Commission expense and commission income

The composition of this account is as follows:

	2022		2021	
	Commission expense	Commission income	Commission expense	Commission income
Direct business	P 592,014,437	P -	P 547,937,071	P -
Reinsurance business	7,402,319	28,612,737	4,523,913	12,256,303
Total	599,416,756	28,612,737	552,460,984	12,256,303
Increase/decrease in DAC/DCI (Note 14)	(4,556,428)	(5,183,859)	(6,153,526)	1,861,636
	P 594,860,328	P 23,428,878	P 546,307,458	P 14,117,939

Standard commission rate for direct and reinsurance business ranges from 4% to 19%.

26. Interest and other income - net

The sources of interest income are as follows:

	2022	2021
Interest income from:		
Held-to-maturity investments	P 31,155,585	P 30,547,135
Cash and cash equivalents and short-term bank placements	14,998,467	3,009,486
	46,154,052	33,556,621
Other income	2,931,265	9,215,629
	P 49,085,317	P 42,772,250

Other income significantly consists of income from towing and service fees on bonds.

27. Administrative expenses

The breakdown of administrative expenses is as follows:

		2022		2021
Salaries and other employee benefits	P	**149,878,933**	P	227,675,027
Agency expenses		**30,929,155**		30,492,566
Professional fees		**23,493,417**		21,041,572
Depreciation *(see Notes 12 and 13)*		**20,474,223**		19,636,237
Investment management fees		**17,990,961**		16,678,029
Retirement benefit cost *(see Note 28)*		**17,759,645**		16,708,685
Communication, light and water		**14,913,100**		13,847,567
Rent *(see Note 31)*		**11,763,897**		12,297,824
Transportation		**11,049,425**		7,948,835
Supplies		**9,062,567**		9,640,566
Advertising		**7,702,472**		4,708,081
Representation and entertainment		**5,655,062**		4,887,746
Taxes and licenses		**5,518,421**		9,496,797
Repairs and maintenance		**4,315,231**		4,389,795
Association pool dues		**3,411,773**		2,711,106
Insurance expense		**2,131,735**		1,854,520
Miscellaneous		**12,940,594**		19,516,424
	P	**348,990,611**	P	423,531,377

Miscellaneous expenses mainly composed of authentication fees, bonds certification and cash gift.

28. Retirement benefit cost

The Company has a tax-qualified, non-contributory defined obligation plan covering all regular employees. The plan provides for lump-sum benefits equivalent to 130% of Plan Salary for every year of Credited Service. The normal retirement age is 65 years old.

The latest actuarial valuation computed using the projected unit credit method dated April 11, 2022 is used as basis for computing actuarial accrued liability for years 2022 and 2021 amounting to P109,178,843 and P110,534,293, respectively.

The following information summarizes the components of defined benefit costs, the unfunded status and the amounts recognized as defined benefit liability.

The retirement benefits recognized in the statement of income and comprehensive income is as follows:

		2022		2021
Current service cost	P	**12,016,757**	P	12,319,998
Net interest cost		**5,862,885**		4,388,687
Settlement gain		**(119,997)**		-
Defined benefit cost recognized in profit and loss		**17,759,645**		16,708,685
Remeasurement gain recognized in OCI		**(8,214,850)**		(13,780,403)
Net defined benefit cost	P	**9,544,795**	P	2,928,282

The net defined benefit liability recognized in the statement of financial position is as follows:

		2022		2021
Present value of obligation	P	**158,026,919**	P	155,933,402
Fair value of plan asset		**48,848,076**		45,399,109
	P	**109,178,843**	P	110,534,293

The changes in present value of defined benefit obligation are as follows:

		2022		2021
Balance at the beginning of the year	P	**155,933,402**	P	138,206,721
Interest cost		**8,496,539**		5,459,165
Current service cost		**12,016,757**		12,319,998
Benefits paid		**(4,900,245)**		-
Settlement gain		**(119,997)**		-
Actuarial gain		**(13,399,537)**		(52,482)
Defined benefit obligation	P	**158,026,919**	P	155,933,402

The changes in fair value of plan asset are as follows:

		2022		2021
Balance at the beginning of the year	P	**45,399,109**	P	23,600,710
Interest income		**2,633,654**		1,070,478
Contributions		**6,000,000**		7,000,000
Remeasurement gain (loss)		**(5,184,687)**		13,727,921
	P	**48,848,076**	P	45,399,109

The allocation of Plan asset is as follows:

	2022	2021
Insurance	**55.13%**	51.48%
Cash and cash equivalents	**44.87%**	48.52%
	100.00%	100.00%

Plan assets are valued by the fund manager at fair value using the mark-to-market valuation.

The Company contributes to the fund depending on the requirements of the plan.

The sensitivity analyses based on reasonably possible changes of each significant assumption on the retirement benefit obligation are as follows:

		2022		2021
Discount rate decrease by 100 bps	P	**(5,447,957)**	P	(6,329,362)
Discount rate increase by 100 bps		**5,990,988**		7,035,562
Salary rate decrease by 100 bps		**(5,608,704)**		(6,329,306)
Salary rate increase by 100 bps		**6,063,391**		6,971,875

Actuarial assumptions used to determine retirement benefits as at December 31, 2022 and 2021 are as follows:

	2022	2021
Discount rate	7.22%	5.09%
Salary rate increase	5.00%	5.00%
Weighted average duration of Plan (in years)	3.60	4.30

The expected future benefits payment of the plan as of December 31, 2022 and 2021 is as follows:

		2022		2021
Within next year	P	111,214,941	P	99,385,280
After next year to 5th year		26,262,070		24,004,871
After 5th year		67,073,046		49,048,368

29. Income taxes

The components of income tax expense recognized in the statements of income for the years ended December 31, 2022 and 2021 are as follows:

		2022		2021
Current	P	19,915,539	P	15,093,558
Deferred		(50,157,254)		(410,495)
	P	(30,241,715)	P	14,683,063

The reconciliation of tax on pretax income computed at the applicable statutory rates to tax expense is as follows:

		2022		2021
Income tax expense at statutory rate	P	27,241,107	P	26,363,336
Adjustment due to change in tax rate		-		(3,813,727)
Income tax effects of:				
Interest income subjected to final tax		(11,538,513)		(8,389,155)
Non-deductible expenses		522,609		522,609
Temporary differences		(46,466,918)		-
Income tax expense	P	(30,241,715)	P	14,683,063

Components of deferred income tax recognized in the statements of financial position are as follows:

		2022		2021
Deferred tax assets				
Defined benefit obligation	P	27,294,711	P	27,633,573
Provision for claims incurred but not recorded		57,852,802		9,567,256
		85,147,513		37,200,829
Deferred tax liabilities				
Net deferred acquisition cost		46,218,228		46,375,085
Revaluation reserve on property and equipment		16,239,363		16,761,972
		62,457,591		63,137,057
Net deferred tax assets (liabilities)	P	22,689,922	P	(25,936,228)

Changes in deferred income tax are as follows:

	As of December 31, 2022			
		Changes taken to		
	Beginning	Profit and loss	Equity	Ending
Deferred tax assets	P 37,200,829	P 50,000,397	P (2,053,713)	P 85,147,513
Deferred tax liabilities	(63,137,057)	156,857	522,609	(62,457,591)
	P (25,936,228)	P 50,157,254	P (1,531,104)	P 22,689,922

	As of December 31, 2021			
		Changes taken to		
	Beginning	Profit and loss	Equity	Ending
Deferred tax assets	P 45,750,498	P (6,459,974)	P (2,089,695)	P 37,200,829
Deferred tax liabilities	(73,987,051)	6,870,469	3,979,525	(63,137,057)
	P (28,236,553)	P 410,495	P 1,889,830	P (25,936,228)

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act
On February 1, 2021, the Bicameral Conference Committee, approved the House Bill No. 4157 and Senate Bill No.1357 (the CREATE) which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted and performance-based. CREATE pursues to dynamically fight the effects of COVID-19 and help businesses to recover as quickly as possible.

Among the reforms provided under CREATE Act are the following:

(i) Reduction in Corporate Income Tax rate effective July 1, 2020 as follows:

1. Those with assets amounting to P100,000,000 and below, and with taxable income equivalent to P5,000,000 and below will be subjected to a 20% tax rate;
2. Those with assets above P100,000,000 or those with taxable income amounting to more than P5,000,000 will be subjected to a 25% tax rate.

(ii) Effective July 1, 2020 until June 30, 2023, the MCIT rate shall be one percent (1%).

30. Reconciliation of accounts under Philippine Financial Reporting Standards (PFRS) and net income under Regulatory Accounting Policies (RAP)

PFRS varies in certain respects from RAP prescribed by the Insurance Commission. In accordance with Section 203 of the amended Insurance Code, the following items of assets is classified as non-admitted assets:

- Intangible assets;
- Prepayments and deferred charges;
- Unsecured loans, advances and other receivables;
- Furniture, fixtures, equipment and the like; and
- Other assets of doubtful value

The reconciliation of balances and difference in measurement bases under PFRS and RAP is as follows:

(i) Statement of Financial Position

		2022		2021
Total assets under PFRS	P	**4,712,209,091**	P	4,087,949,471
Total liabilities under PFRS		**2,079,820,636**		1,845,157,281
Networth under PFRS		**2,632,388,455**		2,242,792,190
Less: Non-admitted assets				
Premiums due from agents and reinsurers		**(7,258,773)**		(6,662,160)
Other property and equipment		**(46,435,311)**		(53,986,499)
Other non-admitted assets		**(26,222,040)**		(4,366,307)
Net worth under RAP	P	**2,552,472,331**	P	2,177,777,224

Net worth under RAP is broken down as follows:

		2022		2021
Total assets under RAP	P	**4,632,292,967**	P	4,022,934,505
Total liabilities under RAP		**2,079,820,636**		1,845,157,281

(ii) Statement of Income

		2022		2021
PFRS net income	P	**139,206,145**	P	90,770,279
Add (Less):				
Effect of deferred income tax		**(50,157,254)**		(410,495)
RAP net income	P	**89,048,891**	P	90,359,784

31. Commitments and contingencies

Leases
The Company leases its office spaces under short-term lease arrangements with various lessors. Rent expense under these lease arrangements amounted to P11,763,897 and P12,297,824 in 2022 and 2021, respectively.

Contingencies
In the normal course of business, the Company may become defendant in lawsuits involving settlement of insurance claims. The Company may recognize adequate provisions in its books to cover possible losses that may be incurred on these claims. In the opinion of management, liabilities arising from these claims, if any, will not have material effect on the Company's financial position and will have no material impact in the financial statements, taken as a whole.

32. Other significant matters

Related party transactions
Advances from stockholders amounting to P200,000,000 and P100,000,000 were converted to share capital in 2022 and 2021, respectively. (see Note 21)

Compensation to key management personnel amounted to P43.4 million in 2022 and 2021 and included as part of salaries and other employee benefits account under administrative expenses in the statements of income.

Restatement
Certain accounts in 2021 were reclassified to conform to 2022 financial statement presentation.

Current and non-current distinction

The Company's current assets and current liabilities are presented below:

		2022		2021
Current assets				
Cash and cash equivalents	P	**1,546,858,225**	P	1,284,899,601
Short-term bank investments		**90,663,621**		123,235,348
Insurance balances receivables		**1,062,945,582**		846,670,290
Deferred acquisition cost		**195,851,016**		191,294,588
Accrued investment income		**5,494,144**		2,623,877
Financial assets - HTM		**562,507,920**		667,210,202
Other assets		**3,596,802**		4,430,990
	P	**3,467,917,310**	P	3,120,364,896
Current liabilities				
Reserve for unearned premiums	P	**1,044,640,590**	P	1,056,934,485
Insurance claims payable		**314,327,153**		132,259,892
Accounts payable and accrued expenses		**577,405,441**		498,743,693
Reinsurance liabilities		**23,290,503**		14,954,443
Deferred commission income		**10,978,106**		5,794,247
	P	**1,970,641,793**	P	1,708,686,760

33. Supplementary Information Required under Revenue Regulation 15-2010

The Bureau of Internal Revenue (BIR) issued Revenue Regulation 15-2010 which requires additional tax information to be disclosed in the Notes to Financial Statements. The following information covering the calendar year ended December 31, 2022 is presented in compliance thereto.

- The details of Value-Added Tax (VAT) - output tax declared in the Company's 2022 VAT returns and the related accounts are as follows:

Premiums	P	107,466,125
Commission		723,144
	P	108,189,269

- The VAT input tax claimed is broken down as follows:

Balance at the beginning of the year	P	-
Current year's domestic purchases/payments for:		
Goods		19,666,538
Services		69,775,383
Applied against VAT output tax		(89,441,921)
Balance at the end of the year	P	-

- The premium tax on personal accident insurance paid and accrued amounted to P48,481.

- The documentary stamp paid/accrued on insurance policies amounted to P68,160,204.

- The amounts of withholding tax payments, by category is as follows:

Tax on compensation and benefits	P	4,488,045
Expanded withholding tax		25,705,583

- All other taxes, local and national, lodge under taxes and licenses account are as follows:

National tax		
IC licenses and filing fees	P	1,666,355
Local taxes		
Real property tax		1,129,145
Community tax		11,900
Business tax		1,884,769
Other local taxes		826,252
	P	5,518,421

R. R. TAN & ASSOCIATES, CPAs

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PRC-BOA Reg. No. 0132, valid until August 13, 2024
SEC Accreditation No. 0394-F, valid until July 23, 2023
BIR Accreditation No. 07-100510-002-2022, valid until September 14, 2025
IC Accreditation No. 0132-IC, valid until November 17, 2024

Independent Auditors' Report on Other Regulatory Requirements

The Board of Directors and Stockholders
COMMONWEALTH INSURANCE COMPANY
10th, 12th and 19th Floor, BDO Plaza
Paseo de Roxas, Makati City

We have audited the accompanying financial statements of **COMMONWEALTH INSURANCE COMPANY** (the Company) for the year ended December 31, 2022 on which we have rendered the attached report dated April 14, 2023. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole.

The information contained in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management. This schedule is presented for purposes of additional analysis and not a required part of the basic financial statements but supplementary information required by the Revised Securities Regulation Code Rule 68. Such information has been subjected to the auditing procedures applied in our audit and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

R. R. TAN AND ASSOCIATES, CPAs

By: **CHESTER NIMITZ F. SALVADOR**
Partner
CPA Certificate No. 0129556
Tax Identification No. 307-838-154
PTR No. 173379, January 17, 2023, Pasig City
SEC Accreditation No. 1812-A, valid until July 23, 2023
BIR Accreditation No. 07-100488-001-2022, valid until May 30, 2025
IC Accreditation No. 129556-IC, valid until March 1, 2025

April 14, 2023
Pasig City

COMMONWEALTH INSURANCE COMPANY
Reconciliation of Retained Earnings Available for Dividend Declaration
DECEMBER 31, 2022

Retained earnings as at December 31, 2021, *as previously reported*			P 1,625,168,087
Add (Less): Net deferred tax liability that decreased net income			22,371,925
Retained earnings as at December 31, 2021, *as adjusted*			1,647,540,012
Add: Net income actually earned during the period			
Net income during the period closed to retained earnings		139,206,145	
Less:	Non-actual/unrealized income net of tax		
	Equity in net income of associate/joint venture	-	
	Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	-	
	Unrealized actuarial gain	-	
	Fair value adjustment (mark-to-market gains)	-	
	Fair value adjustment of investment property resulting to gain	-	
	Decrease in net deferred tax liability that increased the net income	-	
	Adjustment due to deviation from PFRS/GAAP - gain	50,157,254	
	Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	-	
Subtotal		-	
		50,157,254	
Add:	Non-actual losses		
	Depreciation on revaluation increment (after tax)		
	Recognized deferred tax liability that decreased the net income	-	
	Fair value adjustment (mark-to-market losses)	-	
	Adjustment due to deviation from PFRS/GAAP - loss	-	
	Loss on fair value adjustment of investment property (after tax)	-	
Subtotal		-	
		-	
Net income actually earned during the period			89,048,891
Add(less):			
	Dividend declarations during the period		
	Appropriations of retained earnings during the year	-	
	Reversals of appropriations	-	
	Revaluation surplus realized through sale	-	
	Treasury shares	-	
Subtotal		-	
			-
Retained earnings as at December 31, 2022			P 1,736,588,904