COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

3	7	5	6							

COMPANY NAME

M PIONEER INSURANCE INC.

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

7TH FLOOR, TOWER 1, ROCKWELL BUSINESS CENTER, ORTIGAS AVENUE PASIG CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AASC	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	**8-847-7742**	**0916-564-8309**

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
10	**April 28**	**DECEMBER 31**

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
GERARDO P. CASTAÑEDA	**gerry.castañeda@mpioneer.com.ph**	**8-847-7742**	**09178140987**

CONTACT PERSON's ADDRESS

16 Gannet St., Rolling Meadows II Subdivision, Novaliches, Quezon City

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 contact 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.*

SGV
Building a better working world

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INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
M Pioneer Insurance Inc.
7th Floor Tower 1, The Rockwell Business Center
Ortigas Avenue, Pasig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of M Pioneer Insurance Inc. (the Company), which comprise the statements of financial position as at December 31, 2021 and 2020, and the 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, 2021 and 2020, 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 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulation No. 15-2010 in Note 28 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 the management of M Pioneer Insurance Inc. The information 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.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
Tax Identification No. 178-486-666
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 0926-AR-3 (Group A)
July 25, 2019, valid until July 24, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-081-2021, February 1, 2021, valid until January 31, 2024
PTR No. 8854354, January 3, 2022, Makati City

March 18, 2022

M PIONEER INSURANCE INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2021	2020
ASSETS		
Cash and cash equivalents (Notes 6 and 26)	**₱713,382,134**	₱740,416,727
Insurance receivables - net (Notes 7 and 26)	**349,852,898**	356,458,752
Financial assets (Notes 8 and 26)		
Financial assets at fair value through other comprehensive income (FVOCI)	**344,401**	400,091
Financial assets at amortized cost	**901,377,030**	794,316,374
Reinsurance assets (Notes 9 and 13)	**785,589,254**	1,045,583,841
Deferred acquisition costs (Note 10)	**31,203,407**	34,422,448
Property and equipment - net (Note 11)	**8,715,792**	12,578,598
Right-of-use assets - net (Note 22)	**19,342,674**	26,228,129
Other assets (Note 12)	**86,871,903**	75,317,381
	₱2,896,679,493	₱3,085,722,341

LIABILITIES AND EQUITY

Liabilities

Insurance contract liabilities (Note 13)	**₱1,562,269,309**	₱1,705,184,154
Insurance payables (Note 14)	**237,446,493**	257,934,405
Deferred reinsurance commissions (Note 10)	**14,678,351**	9,995,339
Accounts and other payables (Note 15 and 26)	**86,475,348**	77,016,809
Lease liabilities (Note 22)	**19,389,761**	25,818,207
Pension liability (Note 23)	**4,051,068**	9,584,584
	₱1,924,310,330	₱2,085,533,498
Equity		
Capital stock (Notes 1 and 16)	**900,000,000**	565,000,000
Deposit for future stock subscription (Notes 1 and 16)	**–**	335,000,000
Contributed surplus (Note 16)	**544,371,606**	544,371,606
Deficit	**(471,813,002)**	(443,113,559)
Other comprehensive income		
Remeasurement gain (loss) on pension liability (Note 23)	**605,563**	(329,890)
Revaluation reserve for financial asset at FVOCI (Note 8)	**(795,004)**	(739,314)
	₱972,369,163	₱1,000,188,843
	₱2,896,679,493	₱3,085,722,341

See Notes to the Financial Statements.

M PIONEER INSURANCE INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2021	2020
INCOME		
Gross earned premiums on insurance contracts	**₱954,553,806**	₱866,744,061
Reinsurers' share of gross earned premiums on insurance contracts	**(622,992,306)**	(569,524,582)
Net earned premiums (Note 17)	**331,561,500**	297,219,479
Commission income (Note 10)	**27,242,519**	23,584,286
Interest income (Note 18)	**37,251,325**	42,841,606
Others (Note 18)	**6,365,178**	1,435,383
Other income	**70,859,022**	67,861,275
Total Income	**402,420,522**	365,080,754
Gross insurance contract benefits and claims paid	**434,030,520**	178,037,470
Reinsurers' share of gross insurance contract benefits and claims paid	**(299,274,541)**	(63,717,071)
Gross change in insurance contract liabilities	**(204,520,718)**	65,338,166
Reinsurers' share of gross change in insurance contract liabilities	**323,066,760**	991,918
Net insurance benefits and claims (Notes 13 and 19)	**253,302,021**	180,650,483
Commission expense (Note 10)	**79,507,849**	85,227,442
Other underwriting expenses	**20,120,016**	21,055,203
General and administrative expenses (Note 20)	**69,584,250**	58,950,167
Interest expense (Notes 14 and 22)	**1,170,063**	1,500,318
Other expenses	**170,382,178**	166,733,130
Total Benefits, Claims and Other Expenses	**423,684,199**	347,383,613
INCOME (LOSS) BEFORE INCOME TAX	**(21,263,677)**	17,697,141
PROVISION FOR INCOME TAX (Note 21)	**7,435,766**	9,036,925
NET INCOME (LOSS)	**(₱28,699,443)**	₱8,660,216

M PIONEER INSURANCE INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2021	2020
NET INCOME (LOSS)	**(₱28,699,443)**	₱8,660,216
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be reclassified to profit or loss in subsequent period		
Fair value loss on financial asset at FVOCI (Note 8)	**(55,690)**	(86,768)
Remeasurement gain (loss) on pension liability (Note 23)	**935,453**	(306,756)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**879,763**	(393,524)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱27,819,680)**	₱8,266,692

See Notes to the Financial Statements.

M PIONEER INSURANCE INC.
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 1 and 16)	Deposit for Future Stock Subscription (Notes 1 and 16)	Contributed Surplus (Note 16)	Remeasurements on Pension Liability (Note 23)	Revaluation Reserve on Financial Assets at FVOCI (Note 8)	Deficit	Total
As at January 1, 2021	**₱565,000,000**	**₱335,000,000**	**₱544,371,606**	**(₱329,890)**	**(₱739,314)**	**(₱443,113,559)**	**₱1,000,188,843**
Net income for the year	**–**	**–**	**–**	**–**	**–**	**(28,699,443)**	**(28,699,443)**
Other comprehensive income (loss)	**–**	**–**	**–**	**935,453**	**(55,690)**	**–**	**879,763**
Total comprehensive loss	**–**	**–**	**–**	**935,453**	**(55,690)**	**(28,699,443)**	**(27,819,680)**
Issuance of shares (Note 1)	**335,000,000**	**(335,000,000)**	**–**	**–**	**–**	**–**	**–**
As at December 31, 2021	**₱900,000,000**	**₱–**	**₱544,371,606**	**₱605,563**	**(₱795,004)**	**(₱471,813,002)**	**₱972,369,163**
As at January 1, 2020	₱565,000,000	₱–	₱376,355,766	(₱23,134)	(₱652,546)	(₱451,773,775)	₱488,906,311
Net income for the year	–	–	–	–	–	8,660,216	8,660,216
Other comprehensive loss	–	–	–	(306,756)	(86,768)	–	(393,524)
Total comprehensive loss	–	–	–	(306,756)	(86,768)	8,660,216	8,266,692
Capital infusion	–	335,000,000	168,015,840	–	–	–	503,015,840
As at December 31, 2020	₱565,000,000	₱335,000,000	₱544,371,606	(₱329,890)	(₱739,314)	(₱443,113,559)	₱1,000,188,843

See Notes to the Financial Statements.

M PIONEER INSURANCE INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱21,263,677)**	₱17,697,141
Adjustments for:		
Provision (reversal of provision) for impairment losses (Notes 7 and 20)	**(4,547,757)**	370,375
Retirement expense (Notes 20 and 23)	**7,401,937**	1,582,095
Depreciation expense (Notes 11, 20 and 22)	**11,007,274**	11,046,941
Interest expense (Notes 14 and 22)	**1,170,063**	1,500,318
Unrealized foreign exchange loss (gain) (Note 18)	**(4,951,655)**	1,563,396
Interest income (Note 18)	**(37,251,325)**	(42,841,606)
Operating loss before changes in working capital changes	**(48,435,140)**	(9,081,340)
Changes in operating assets and liabilities:		
Decrease (increase) in operating assets:		
Reinsurance assets	**259,994,587**	(40,321,583)
Insurance receivables	**11,153,611**	(134,908,529)
Other assets	**(11,546,826)**	(18,103,311)
Deferred acquisition costs	**3,219,041**	(250,533)
Loans and receivables	**(273,004)**	5,811,697
Increase (decrease) in operating liabilities:		
Insurance contract liabilities	**(142,914,845)**	137,840,096
Insurance payables	**(20,531,536)**	66,234,935
Accounts and other payables	**9,458,539**	26,955,861
Deferred reinsurance commissions	**4,683,012**	428,136
Cash generated from operating activities	**64,807,439**	34,605,429
Retirement contributions paid (Note 23)	**(12,000,000)**	–
Income tax paid	**(7,443,462)**	(8,447,230)
Net cash provided by operating activities	**45,363,977**	26,158,199
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received (Notes 8 and 18)	**37,506,603**	37,007,400
Proceeds from maturity of:		
Investment securities at amortized cost (Note 8)	**10,000,000**	3,300,000
Acquisitions of:		
Investment securities at amortized cost (Note 8)	**(117,042,930)**	(489,867,378)
Right-of-use assets (Note 22)	**(90,685)**	(86,361)
Property and equipment (Notes 11)	**(168,328)**	(2,451,076)
Net cash used in investing activities	**(69,795,340)**	(452,097,415)

(Forward)

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposit for future stock subscription (Note 16)	**₱–**	₱335,000,000
Additions to contributed surplus (Note 16)	**–**	168,015,840
Payment of principal portion of lease liabilities (Note 22)	**(7,554,885)**	(7,154,007)
Net cash provided by (used in) financing activities	**(7,554,885)**	495,861,833
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**4,951,655**	(1,563,396)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(27,034,593)**	68,359,221
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**740,416,727**	672,057,506
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱713,382,134**	₱740,416,727

See Notes to the Financial Statements.

1. Corporate Information

M Pioneer Insurance Inc. (“M Pioneer” or the “Company”) was originally incorporated and registered with the Philippine Securities and Exchange Commission (SEC) in 1948 as *Republic Surety and Insurance Company Inc.*. The Company’s corporate life has been extended for another 50 years up to 2048. The Company’s principal office is located at 7th Floor, Tower 1, The Rockwell Business Center, Ortigas Avenue, Pasig City.

The Company is engaged in the business of indemnifying insured parties against loss, damage or liability arising from an unknown or contingent event. It has a certificate of authority issued by the Insurance Commission (IC) of the Philippines to transact in non-life (bonds, casualty, fire, engineering, motor, marine and personal accident) insurance business until December 31, 2021.

Advisory No. 2-A-2020 dated February 18, 2020 was issued by the IC requiring insurance companies to comply with the ₱900.00 million minimum net worth requirement until February 28, 2020. On February 27, 2020, the Board of Directors (“BOD”) approved the call for capital contribution amounting to ₱503.01 million. Thereafter, Pioneer Insurance & Surety Corporation (“Pioneer”) infused additional cash of ₱441.05 million and Manila Electric Company (“Meralco”) infused ₱61.96 million, resulting to change in equity ownership of the two (2) shareholder groups from 51% and 49% to 65% and 35%, respectively (Note 16).

On March 13, 2020, the BOD approved the increase in authorized capital stock of the Company from ₱600,000,000 divided into 6,000,000 shares at ₱100 par value to ₱1,300,000,000 divided into 13,000,000 shares at ₱100 par value. The Company applied for the increase in authorized capital stock on December 15, 2020 and obtained approval of the Securities and Exchange Commission on August 24, 2021. Following the approval, the Company issued 2,968,500 and 381,500 common shares to Pioneer and Meralco, respectively. The issuance resulted in transfer of deposit for future stock subscription to capital stock (Note 16).

The accompanying comparative financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 18, 2022.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The financial statements have been prepared on a historical cost basis, except as disclosed in the accounting policies in Note 4. The financial statements are presented in Philippine Peso (₱), which is the Company’s functional and reporting currency. All amounts are rounded to the nearest Peso unless otherwise indicated.

Statement of Compliance
The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS include Philippine Financial Reporting Standards, and Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

3. **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2021. 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.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*
- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

<u>Standards Issued but Not Yet Effective</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2022
- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs* 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- 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, *Classification of Liabilities as Current or Non-current*

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

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

  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 Company has substantially completed its financial and operational impact assessment of adoption of PFRS 17. It is currently exploring its options on the changes needed to its data, systems and processes to meet the PFRS 17 requirements. The Company has also performed an initial quantification of the impact of PFRS 17 on its current lines of business, and expect the more significant impact to be on its 1) lines of business determined to be measured using the General Measurement Model; and 2) its contracts where settlement period exceeds more than a year.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

4. Summary of Significant Accounting Policies

Financial Instruments

Date of Recognition
Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the timeframe established by regulation or convention in the marketplace are recognized on the trade date.

Initial Recognition and Measurement of Financial Instruments
Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). The initial measurement of financial assets includes transaction costs.

Classification and Subsequent Measurement
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing financial assets.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

In making this assessment, the Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. Only financial assets that pass the SPPI test are eligible to be measured at FVOCI or at amortized cost.

Business model
The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, the Company assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (solely payments of principal and interest (SPPI) test)

The Company classifies its financial assets into the following measurement categories:

- financial assets at amortized cost; and
- financial assets (equity investments) at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

Financial assets at amortized cost
These are financial assets at amortized cost that are held with the objective to hold in order to collect contractual cash flows and the contractual terms give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

This accounting policy also relates to the accounts: (a) cash and cash equivalents (excluding cash on hand); (b) insurance receivables; (c) financial assets at amortized cost; and; (d) refundable rental deposit and security fund.

Financial assets designated at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss (equity instruments)
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established. Except when the Company benefits from such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Company elected to classify irrevocably its equity securities under this category.

Cash and Cash Equivalents
Cash and cash equivalents comprise of cash balances and bank deposits with maturities of three (3) months or less from the acquisition date that are subject to an insignificant risk of changes in value.

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. These include investment contracts, which mainly transfer financial risk and have no or insignificant insurance risk.

After initial measurement, other interest financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral part of the effective interest rate.

This accounting policy applies to the Company's accounts and other payables excluding payable to government.

Fair Value Measurement
The Company measures financial assets at FVOCI at fair value at each reporting date.

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 by 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.

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: inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

"Day 1" Difference.
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where data which is not observable was used, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

<u>Impairment of Financial Assets</u>
The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

PFRS 9 also allows the use of the loss rate approach in estimating ECL in cases where no complex portfolio is present for an entity. As a result, the Company applies the simplified approach wherein ECL allowances will be measured at an amount equal to lifetime ECL. The assessment of SICR that is solely based on the change in the risk of default is not applied under the loss rate approach and the loss rate based on historical trend is adjusted for current conditions and expectations over the future using the overlay.

The Company applies the simplified approach in its 'Insurance receivables' and applies general approach for the related debt securities which include, 'Cash and cash equivalents' and 'Investment securities at amortized cost'.

Significant increase in credit risk (SICR)
The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's aging information, the borrower becomes past due for over 30 days. Further, the Company assumes that the credit risk of a financial asset, particularly on cash and equivalents and investment securities at amortized cost, has not increased significantly since origination if the financial asset is determined to have "low credit risk" as of the reporting date. A financial asset is considered "low credit risk" when it has an external rating equivalent to "investment grade".

In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Company shall revert to recognizing a 12-month ECL.

Staging assessment
For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired debt financial assets which have not experienced a SICR since initial recognition. The Company recognizes a 12-month ECL for Stage 1 debt financial assets.
- Stage 2 is comprised of all non-impaired debt financial assets which have experienced a SICR since initial recognition. The Company recognizes a lifetime ECL for Stage 2 debt financial assets.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment.

ECL parameters and methodologies
For 'Cash and cash equivalents' and 'Investment securities at amortized cost', the Company's calculation of ECL is a function of the probability of default (PD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The Company applies a simplified approach to Insurance receivables in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The provision rates are based on days past due for groupings of various counterparty segments that have similar loss patterns (e.g. by intermediary, debtor). The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

Forward looking information
A range of economic overlays are considered, and expert credit judgment is applied in determining the forward-looking inputs to the ECL calculation. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

<u>Derecognition of Financial Instruments</u>
Financial Asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Company has transferred its right to receive cash flows from an asset and has either 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 guarantee over the transferred assets is measured at the lower of the original carrying amount of the assets and the maximum amount of consideration that the Company could be required to pay.

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

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset, and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability

simultaneously. This is not generally the case with master netting agreements, as the related assets and liabilities are presented gross in the statement of financial position.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

Property and Equipment
The Company's property and equipment consist of furniture and fixtures, equipment, and leasehold improvements.

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs.

Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment other than leasehold improvements. Amortization is computed on a straight-line basis over the estimated useful life of the leasehold improvements or the term of the lease, whichever is shorter.

The estimated useful lives are as follows:

	Number of Years
Furniture, fixtures and equipment	5
Transportation equipment	5
Computer software	5
Computer Hardware and mobile	4
Leasehold improvements	5 or lease term, whichever is shorter

The residual values, useful lives, depreciation and amortization methods for items of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

When an asset is disposed of or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and the related accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Right-of-use assets
The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follow.

	Number of Years
Office space and parking lot	5
Transportation vehicle	5

Right-of-use assets are subject to impairment. Refer to discussion in section of impairment of non-financial assets.

Other Assets

Creditable Withholding Taxes (CWTs)

Creditable withholding taxes pertain to the tax withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under “Other assets” account. At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company. At each end of the reporting period, an assessment for impairment is performed as to the recoverability of these CWTs.

Security fund

Security fund refers to the contribution of the Company to the non-life insurance account as required by the IC for all non-life insurance companies authorized to do business in the Philippines.

Impairment of Non-financial Assets

The Company’s non-financial assets consist of “Property and equipment”, “Right-of-use assets”, and “Other assets”, excluding refundable rental deposits and security fund.

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated formally by the Company. An asset's recoverable amount is the higher of the assets or cash-generating unit's value in use and its fair value, less costs to dispose, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss on an asset is reversed only if there has been a change in the estimate used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Insurance Contract

Insurance contract is an agreement whereby one party, called the insurer, undertakes for a consideration paid by the other party, called the insured, promises to pay money, or its equivalent or to do some act valuable to the latter, upon happening of a loss, liability or disability arising from an unknown or contingent event.

Contract Classification

The Company issues short-term insurance contracts categorized as: (i) casualty (i.e. general accident); (ii) property (i.e. fire, engineering and motor); (iii) short-duration accident insurance (i.e. personal accident, marine, and aviation); (iv) suretyship insurance contract.

Casualty insurance contract protects the assured against the risk causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. Property insurance contract mainly compensates the Company's assured for damages suffered to their properties or for the value of property lost. Short-duration accident insurance policy protects the assured from the consequences of events such as death or disability in connection with a specific travel whether for business or pleasure. Short-duration accident insurance covers also apply to insurance of goods or equipment while being transported from point of origin to point of destination under special risks or marine cargo insurance contract. Suretyship insurance contract is not a contract of indemnity, but a contract of guarantee. It protects the Company's assured and their investments from loss when entering into a bond. This includes bid bond, performance bond, surety bond, guarantee bond, fidelity bond and judicial and heirs' bond.

Underwriting
Gross premiums on insurance contracts comprise the total premiums for the whole period of cover provided by insurance contracts entered into during the accounting period and are recognized on the date on which the policies incept. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Premiums receivable represent the outstanding balance or premiums due from the insured or policyholders, or those premiums that were collected by agents or brokers on behalf of the Company.

Reinsurance
The Company cedes insurance risk in the normal course of business. Reinsurance assets primarily include balances due from ceding and reinsurance companies. Amounts due from reinsurers are accounted in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amount due to it under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged to profit or loss. Ceded reinsurance arrangements do not relieve the Company from its obligation to policyholders.

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

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

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

Reserve for Unearned Premiums and Deferred Reinsurance Premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as 'Provision for unearned premiums' in the statements of financial position captioned, 'Insurance contract liability'. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. 'Gross change in provision for unearned premiums' account is taken in to

profit or loss captioned 'Gross earned premiums on insurance contracts' in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

The related reinsurance premiums ceded that pertains to the unexpired periods at end of the reporting period are accounted for as 'Deferred Reinsurance Premiums' in the statement of financial position captioned 'Reinsurance assets'. The net changes in reinsurance premiums reserve between each end of reporting period are recognized as part of 'Reinsurers' share of gross change in provision for unearned premiums' account in profit or loss captioned 'Reinsurers' share of gross earned premiums on insurance contracts'.

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract. Amortization is charged to profit or loss. The unamortized acquisition costs are shown as "Deferred acquisition costs" (DAC) in the assets section of the statement of financial position.

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

DAC is derecognized when the related contracts are settled or disposed.

Commission Income and Deferred Reinsurance Commission
Commissions earned from reinsurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as "Deferred reinsurance commission" in the statement of financial position. The net changes in deferred reinsurance commission between each end of reporting period are recognized as "Commission income" in profit or loss.

Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Provision for Claims Reported and Incurred But Not Reported (IBNR) Losses
Provision for claims reported and IBNR losses are based on the estimated ultimate cost of all claims incurred but not reported (IBNR) at the end of the reporting period together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The IBNR shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, the expected loss ratio approach, and the Bornhuetter-Ferguson method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision. The actuary determines the appropriateness of the method used by considering the characteristics of the Company's claims data

and other factors such as maturity of the business, large losses arising from significant past events, operational changes in claims and underwriting processes and external conditions.

The Company shall include an MfAD to allow for inherent uncertainty of the best estimate of the policy reserves which shall be determined by an independent actuary at least on an annual basis based on standard projection techniques or combination of such techniques such as, but not limited to, the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the policy liabilities at the 75% level of sufficiency.

Provision for claims handling expenses is also calculated by the actuary to cover estimated expenses of settling all claims, both reported and unreported, outstanding as of the reporting date.

Liability Adequacy Test
At each reporting date, liability adequacy test is performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of all contractual cash flows, claims and claims handling cost. If the test shows that the liability is inadequate, the entire deficiency is recognized in profit or loss.

Quarterly, an actuarial valuation is performed on the gross and net claims and premium liabilities to ensure that the reserves are in compliance with the Valuation Standards for Non-life Insurance Policy Reserves as required by the IC guided by Sections 219 and 220 of the Amended Insurance Code (Republic Act. No. 10607) along with Circular Letters No. 2018-18 and No. 2018-19. Additional reserves are set up if the result of the actuarial investigation shows that the existing balances are not in accordance with the mandate of IC.

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

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

Insurance Payables
This represents reinsurance premiums payable by the company to all its reinsurers, recognized at transaction when the company enters into a reinsurance agreement for ceding out its insurance business. This account is derecognized when the obligation under the liability is settled.

Accounts and other Payables
Accounts payable includes commissions payable to agents and brokers which are due upon collection of the related premiums receivable. It also pertains to unpaid purchases of goods and services to suppliers. They are due within one year.

Accrued Expenses
These represents incurred expenses but are not yet paid. They are due within one year and are derecognized upon settlement of the expense.

Taxes payable
This pertains to withholding taxes, fire services tax, local government tax and Value Added Tax (VAT). They are non-interest bearing and normally settled within 30 to 90 days.

Value added tax
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Lease Liabilities
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

Short-term Leases and Leases of Low-value Assets
The Company applies recognition exemption to low value assets (i.e., below ₱0.20 million) and lease payments on short-term leases (i.e. lease term ends within 12 months). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Pension Liability
The Company's net obligation in respect of the defined benefit plans is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements on pension liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss.

The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination Benefits
Termination benefits are charged to expense at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for restructuring. If benefits are not expected to be settled wholly within 12 months from the end of the reporting period, then they are discounted.

Equity
Capital Stock
Capital stock is recognized at the par value of stocks that have been issued.

Contributed Surplus
This represents contributions from stockholders to cover any deficiency in the net worth requirement.

Deficit
Deficit represent the cumulative balance of net loss of the Company, net of any dividend distribution and restatements, net of consequential tax impact.

Revenue Recognition
Revenue is recognized when the significant risks and rewards of ownership have been transferred or the services have been rendered to the customer, the amount of revenue can be measured reliably, and it is probable that the economic benefits will flow to the Company. Revenue is measured at the fair value of the consideration received, or receivable.

Interest Income
Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest method.

Interest income from cash in banks, loans and receivables, funds held by ceding companies and dividend income, which is subject to final withholding tax, is presented at net amounts.

Other Income

Dividend Income
Dividend income is recognized when the stockholders' right to receive the payment is established.

Miscellaneous Income
Other income is recognized when earned.

Expense Recognition
Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably.

General and administrative expenses
General and administrative expenses are recognized when incurred.

Income Taxes
Income tax on the profit or loss for the year comprises current and deferred income tax. Current and deferred income tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Current Income Tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute this amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Income Taxes
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax asset to be utilized. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Provisions
Provisions are recognized only when the Company has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material,

provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

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

Contingencies

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

5. Significant Accounting Judgments and Estimates

The preparation of financial statements in conformity with PFRS necessitates the use of judgments, estimates and assumptions that affect the application of policies and reported amount of assets, liabilities, and contingent liabilities at the reporting date as well as the reported income and expense for the year. The following are the critical judgments, key estimates and assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year and/or in future periods:

Judgments

(a) Product classification

Per Appendix B of PFRS 4 Paragraph B18, insurance products are insurance contracts if the transfer of insurance risk is significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

The Company has determined that the insurance policies it issues have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

(b) Determination of lease term of contracts with renewal and termination options – Company as a lessee

The Company has lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The renewal options for the existing leases are not included as part of the lease term because the renewal is subject to mutual agreement of both the lessor and the Company. Furthermore, the periods covered by termination options are included as part of the lease term since they are reasonably certain not to be exercised.

(c) Classification of Financial Instruments

The Company classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Company performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

In performing the SPPI test, the Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

<u>Estimates</u>

(a) Leases – Estimating the incremental borrowing rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using market interest rates when available and is required to make certain entity-specific estimates (such as the Company's stand-alone credit rating).

The Company's lease liabilities as of December 31, 2021 and 2020 are disclosed in Note 22.

(b) Claims Liabilities Arising from Insurance Contracts
For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the

claims provision. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision.

IBNR is estimated by using a range of standard actuarial claims projection techniques, such as Paid Chain Ladder method with and without Bornhuetter-Ferguson (BF) adjustments, Reported Chain Ladder method with and without BF adjustments and Expected Loss Ratio methods.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years but can also be further analyzed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The Margin for Adverse Deviation (MfAD) reflects the degree of uncertainty of the best estimate assumption. For claims liabilities, the Company estimated the appropriate margin for adverse deviation using the Stochastic Chain Ladder method to bring the actuarial estimate of the claims liabilities at 75% percentile level of sufficiency.

The carrying value of claims reported, IBNR and MfAD included in the insurance contract liabilities account are disclosed in Note 13

In calculating the undiscounted unexpired risk reserves (URR), the unearned premium reserves (UPR) were multiplied by the ultimate loss and LAE ratio adjusted for policy maintenance expenses (gross and net basis). The ultimate loss and LAE ratio were derived from the estimation of the claims liabilities supplemented by industry ratios. URR is then compared to UPR net of Deferred Acquisition Cost (DAC) to test the adequacy of premiums liability at each reporting date. As of December 31, 2021 and 2020, the URR did not exceed UPR net of DAC. Hence, no additional provisions are made.

(c) *Impairment of Financial assets*
The Company uses a provision matrix to calculate ECLs for premiums and reinsurance receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type).

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The carrying value of insurance receivables and related allowance for ECL as of December 31, 2021 and 2020 are disclosed in Note 7

(d) Estimated Useful Lives of Property and Equipment
The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use. It is possible that future results of operations 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 amortization expense and decrease the related asset accounts. In 2020, the company changed the useful life of Laptops and mobile from 5 years to 4 years.

The carrying values of property and equipment as of December 31, 2021 and 2020 are disclosed in Note 11.

(e) Estimation of Retirement Benefit Cost
The determination of the Company's obligation and benefit cost and other retirement benefits is dependent on management's selection of certain assumptions used by actuaries in calculating such amounts.

The assumptions for benefit costs and other retirement benefits are described in Note 23 to the financial statements and include among others, discount rates and rates of compensation increase. In accordance with PFRS, actual results that differ from assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the Company's retirement benefit costs.

Net pension liability as of December 31, 2021 and 2020 amounted ₱4.05 million and ₱9.58 million are disclosed in Note 23.

(f) Realizability of Deferred Tax Assets
The Company reviews the carrying amounts of deferred income tax assets at the end of each reporting period and reduces these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting periods. This forecast is based on the past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of the recorded deferred income tax assets to be utilized.

The Company did not recognize deferred tax assets on the deductible temporary differences, excess of MCIT over RCIT and unused NOLCO as it does not expect to generate sufficient taxable income from which said tax assets may be utilized. The amount of unrecognized deferred tax assets is disclosed in Note 21.

(g) Contingencies
The Company is not involved in any legal proceeding which may be decided in favor of or against the Company.

6. Cash and Cash Equivalents and Short-term Investments

Cash and Cash Equivalents

	2021	2020
Cash on hand	**₱110,000**	₱110,000
Cash in banks	**10,503,913**	8,784,451
Cash equivalents	**702,768,221**	731,522,276
	₱713,382,134	₱740,416,727

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents represent short-term deposits that are made for varying periods up to three (3) months depending on the immediate cash requirements of the Company and earned interest at the respective short-term investment rates ranging from 0.375% to 1.25% in 2021 and 0.75% to 4.25% in 2020.

Interest income earned on these deposits amounted to ₱6.88 million and ₱20.71 million in 2021 and 2020, respectively (Note 18).

7. Insurance Receivables

This account consists of:

	2021	2020
Premiums due from ceding companies	**₱147,693,251**	₱165,958,823
Premiums receivable	**120,795,258**	142,168,336
Reinsurance recoverable on paid losses	**74,182,789**	51,539,671
Funds held by ceding companies	**19,980,457**	14,138,536
	362,651,755	373,805,366
Less allowance for impairment losses	**12,798,857**	17,346,614
	₱349,852,898	₱356,458,752

Premiums due from ceding companies are premiums receivable for assumed business from other insurance and reinsurance companies.

Premiums receivable arise from unpaid premiums from policyholders and intermediaries.

Reinsurance recoverable on paid losses is the share of reinsurance companies for the claims already paid to the insured by the Company.

Funds held by ceding companies pertain to a certain percentage of the total reinsurance premiums due within one (1) year from date of retention being held by ceding companies. Interest income on Funds held by ceding company amounted to ₱0.10 million and ₱0.21 million in 2021 and 2020, respectively (Note 18).

Movements of allowance for impairment losses are as follows:

	2021	2020
At January 1	**₱17,346,614**	₱16,976,239
Net provision (reversal of provision) (Note 20)	**(4,547,757)**	370,375
At December 31	**₱12,798,857**	₱17,346,614

8. **Financial Assets**

The Company's financial assets are summarized by measurement categories as follows:

	2021	2020
Financial assets at amortized cost	**₱901,377,030**	₱794,316,374
Financial asset at FVOCI	**344,401**	400,091
	₱901,721,431	₱794,716,465

a) *Financial asset at FVOCI*

As of December 31, 2021 and 2020, financial asset at FVOCI consists of:

	2021	2020
Quoted equity securities	**₱325,380**	₱363,341
Unquoted equity securities	**19,021**	36,750
Total financial assets at FVOCI	**₱344,401**	₱400,091

As of December 31, 2021 and 2020, the cost of quoted and unquoted equity securities are as follows:

Quoted equity securities	**₱1,119,405**
Unquoted equity securities	**20,000**
Total	**₱1,139,405**

Revaluation reserve on financial asset at FVOCI:

	2021	2020
Balance at the beginning of the year	**₱739,314**	₱652,546
Revaluation reserve recognized in OCI	**55,690**	86,768
Balance at the end of the year	**₱795,004**	₱739,314

b) Financial assets at amortized cost

As of December 31, 2021 and 2020, financial assets at amortized cost are composed of:

	2021	2020
Investment securities	**₱894,641,197**	₱787,726,944
Loans and receivables	**6,735,833**	6,589,430
	₱901,377,030	₱794,316,374

Investment securities

As of December 31, 2021 and 2020, investment securities at amortized cost pertain to peso-denominated government and corporate securities as follows:

	2021	2020
Government securities		
Carrying value	**₱741,642,397**	₱676,726,944
Coupon rate	**1.085% to 6.4%**	1.5% to 6.4%
Corporate securities		
Carrying value	**₱152,998,800**	₱111,000,000
Coupon rate	**2.84% to 5.5%**	2.84% to 3.86%

As at December 31, 2021 and 2020, government securities amounting to ₱482.67 million and ₱417.80 million, respectively, held by the National Registry of Scripless Securities (nRoSS) are earmarked as non-tradable in accordance with the provisions of the Insurance Code as security for the benefit of policyholders and creditors of the Company.

The investment securities at amortized cost as of December 31, 2021 have maturities from January 5, 2022 to June 2, 2027 and the balance as of December 31, 2020 have maturities from February 24, 2021 to September 29, 2025.

The rollforward of investment securities at amortized cost follow:

	Amount
At January 1, 2020	₱300,702,086
Additions	489,867,378
Maturities	(3,300,000)
Amortization	457,480
At December 31, 2020	**₱787,726,944**
Additions	**117,042,930**
Maturities	**(10,000,000)**
Amortization	**(128,677)**
At December 31, 2021	**₱894,641,197**

Interest income from investment securities at amortized cost amounted to ₱30.21 million and ₱21.85 million in 2021 and 2020, respectively (Note 18).

Loans and Receivables

This account consists of:

	2021	2020
Interest receivable	**₱4,203,627**	₱4,458,905
Receivable from employees	**1,451,669**	1,922,316
Other receivables	**1,080,537**	100,248
Due from Pioneer (Note 24)	–	107,961
	₱6,735,833	₱6,589,430

Interest receivable represents interest earned from cash equivalents, investments in government securities and corporate bonds, which will be credited on interest due dates.

Receivable from employees pertain to chattel mortgage loan, salary loans and medical advances granted to employees.

Other receivables consist of estimated recovery on surety policy and other miscellaneous receivables.

Due from Pioneer are accounts advanced by the Company.

9. Reinsurance Assets

This account consists of:

	2021	2020
Reinsurance recoverable on unpaid losses (Note 13)	**₱576,795,539**	₱899,862,299
Deferred reinsurance premiums (Note 13)	**208,793,715**	145,721,542
	₱785,589,254	₱1,045,583,841

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

Deferred reinsurance premiums are reinsurance premiums that pertain to the unexpired periods as at reporting date.

10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The rollforward analyses of these accounts follow:

Deferred acquisition costs

	2021	2020
At January 1	**₱34,422,448**	₱34,171,915
Costs deferred during the year	**76,288,808**	85,477,975
Costs incurred during the year	**(79,507,849)**	(85,227,442)
At December 31	**₱31,203,407**	₱34,422,448

Deferred reinsurance commissions

	2021	2020
At January 1	**₱9,995,339**	₱9,567,203
Commissions deferred during the year	**31,925,531**	24,012,422
Commissions earned during the year	**(27,242,519)**	(23,584,286)
At December 31	**₱14,678,351**	₱9,995,339

11. **Property and Equipment - net**

The rollforward analysis of property and equipment follows:

	2021					
	Furniture, Fixtures and Equipment	**Transportation Equipment**	**Computer Hardware and Software**	**Leasehold Improvements**	**Mobile Phone and Accessories**	**Total**
Cost						
At January 1	**₱730,535**	**₱2,513,311**	**₱11,762,681**	**₱14,290,527**	**₱35,714**	**₱29,332,768**
Additions	**–**	**–**	**168,328**	**–**	**–**	**168,328**
At December 31	**730,535**	**2,513,311**	**11,931,009**	**14,290,527**	**35,714**	**29,501,096**
Accumulated Depreciation and Amortization						
At January 1	**730,509**	**624,020**	**10,169,979**	**5,227,430**	**2,232**	**16,754,170**
Depreciation and amortization for the year (Note 20)	**–**	**477,815**	**684,222**	**2,860,168**	**8,929**	**4,031,134**
Balances as at December 31	**730,509**	**1,101,835**	**10,854,201**	**8,087,598**	**11,161**	**20,785,304**
Net book value	**₱26**	**₱1,411,476**	**₱1,076,808**	**₱6,202,929**	**₱24,553**	**₱8,715,792**

	2020					
	Furniture, Fixtures and Equipment	Transportation Equipment	Computer Hardware and Software	Leasehold Improvements	Mobile Phone and Accessories	Total
Cost						
At January 1	₱730,535	₱496,918	₱11,397,614	₱14,256,625	₱–	₱26,881,692
Additions	–	2,016,393	365,067	33,902	35,714	2,451,076
At December 31	730,535	2,513,311	11,762,681	14,290,527	35,714	29,332,768
Accumulated Depreciation and Amortization						
At January 1	730,509	322,997	9,230,543	2,376,105	–	12,660,154
Depreciation and amortization for the year (Note 20)	–	301,023	939,436	2,851,325	2,232	4,094,016
Balances as at December 31	730,509	624,020	10,169,979	5,227,430	2,232	16,754,170
Net book value	₱26	₱1,889,291	₱1,592,702	₱9,063,097	₱33,482	₱12,578,598

The total cost of the Company's fully depreciated property and equipment still in use amounted to ₱10.17 million and ₱9.67 million in 2021 and 2020, respectively.

12. **Other Assets**

This account consists of:

	2021	2020
Creditable withholding taxes (CWTs)	**₱80,740,897**	₱65,355,294
Documentary stamp tax fund	**4,858,300**	4,267,109
Rental deposits	**1,904,940**	1,814,254
Security fund	**48,439**	48,439
Deferred Input VAT	**–**	3,394,401
Input VAT	**–**	1,303,765
Miscellaneous	**244,945**	59,737
	₱87,797,521	₱76,242,999
Less: allowance for impairment of CWTs	**(925,618)**	(925,618)
	₱86,871,903	₱75,317,381

CWTs represent tax withheld by customers upon payment of billing from the Company. These CWTs may be applied against future income tax liabilities.

Documentary stamp tax fund pertains to wallet balance being maintained in the e-Documentary Stamp Tax system in the BIR intended to be utilized for DST payable of the Company.

Rental deposits pertain to refundable deposits made under its lease agreements with the lessors.

Security fund pertains to the contribution to a fund required by the IC on all insurance companies authorized to do business in the Philippines.

Miscellaneous assets pertain to revolving funds held by third parties and documentary stamp taxes fund.

13. Insurance Contract Liabilities

Insurance contract liabilities are analyzed as follow:

	2021			2020		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities (Note 9)**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
Provision for claims reported	**₱699,532,717**	**₱248,863,264**	**₱450,669,453**	₱920,978,948	₱548,718,390	₱372,260,558
Provision for IBNR (Note 26)	**468,929,863**	**327,932,275**	**140,997,588**	452,004,350	351,143,909	100,860,441
Outstanding claims provision	**1,168,462,580**	**576,795,539**	**591,667,041**	1,372,983,298	899,862,299	473,120,999
Provision for unearned premiums	**393,806,729**	**208,793,715**	**185,013,014**	332,200,856	145,721,542	186,479,314
Insurance contract liabilities	**₱1,562,269,309**	**₱785,589,254**	**₱776,680,055**	₱1,705,184,154	₱1,045,583,841	₱659,600,313

The movements of outstanding claims provision follow:

	2021			2020		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities (Note 9)**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
At January 1	**₱1,372,983,298**	**₱899,862,299**	**₱473,120,999**	₱1,307,645,132	₱900,854,217	₱406,790,915
Claims incurred during the year	**212,584,289**	**(580,585)**	**213,164,874**	219,380,871	62,329,207	157,051,664
Claims paid (Note 19)	**(434,030,520)**	**(299,274,541)**	**(134,755,979)**	(178,037,470)	(63,717,071)	(114,320,399)
Increase (decrease) in IBNR (Note 19)	**16,925,513**	**(23,211,634)**	**40,137,147**	23,994,765	395,946	23,598,819
At December 31	**₱1,168,462,580**	**₱576,795,539**	**₱591,667,041**	₱1,372,983,298	₱899,862,299	₱473,120,999

The movements of provision for unearned premiums follow:

	2021			2020		
	Provision for Unearned Premiums	**Reinsurers' Share of Liabilities (Note 9)**	**Net**	Provision for Unearned Premiums	Reinsurers' Share of Liabilities (Note 9)	Net
At January 1	**₱332,200,856**	**₱145,721,542**	**₱186,479,314**	₱259,698,926	₱104,408,041	₱155,290,885
Premiums written during the year (Note 17)	**1,016,159,679**	**686,064,479**	**330,095,200**	939,245,991	610,838,083	328,407,908
Premiums earned during the year (Note 17)	**(954,553,806)**	**(622,992,306)**	**(331,561,500)**	(866,744,061)	(569,524,582)	(297,219,479)
At December 31	**₱393,806,729**	**₱208,793,715**	**₱185,013,014**	₱332,200,856	₱145,721,542	₱186,479,314

14. **Insurance Payables**

This account consists of:

	2021	2020
Premiums due to reinsurers	**₱236,724,278**	₱256,722,894
Funds held for reinsurers	**722,215**	1,211,511
	₱237,446,493	₱257,934,405

Interest expense for the funds held amounted to ₱0.04 million and ₱0.07 million in 2021 and 2020, respectively.

The movements of insurance payables follow:

	Premiums due to reinsurers	Funds held for reinsurers	Total
At January 1, 2020	₱191,539,272	₱87,762	₱191,627,034
Additions during the year	610,838,083	–	610,838,083
Withheld during the year	–	5,861,627	5,861,627
Paid/utilized	(545,654,461)	(4,737,878)	(550,392,339)
At December 31, 2020	₱256,722,894	₱1,211,511	₱257,934,405
Additions during the year	**686,064,479**	–	**686,064,479**
Withheld during the year	–	**5,007,740**	**5,007,740**
Paid/utilized	**(706,063,095)**	**(5,497,036)**	**(711,560,131)**
At December 31, 2021	**₱236,724,278**	**₱722,215**	**₱237,446,493**

15. **Accounts and Other Payables**

This account consists of:

	2021	2020
Taxes payable	**₱38,195,432**	₱27,108,718
Commissions payable	**23,599,609**	21,571,384
Accounts payable	**17,212,926**	20,856,728
Employee benefits payable	**6,755,683**	6,798,656
Due to Pioneer (Note 24)	**711,698**	681,323
	₱86,475,348	₱77,016,809

Taxes payable pertain to output VAT, withholding taxes payable, fire service tax payable, documentary stamp tax (DST) payable, and other taxes and licenses payable.

Commissions payable represent unpaid commissions on the Company's direct business which are due to ordinary agents, general agents and insurance brokers.

Accounts payable consist of unreleased checks, unidentified deposits, accrued expenses.

Employee benefits payable include SSS contributions and salary loans payable, Philhealth contribution payable, Home Development Mutual Fund (HDMF) contributions, service awards and bonus accruals.

Due to Pioneer are expenses advanced and paid by Pioneer.

16. **Equity**

Capital Stock

The movements of the Company's capital stock follow:

	2021		2020	
	Number of Shares	**Amount**	Number of Shares	Amount
Authorized:				
Common – ₱100 par value	**13,000,000**	**₱1,300,000,000**	6,000,000	₱600,000,000
Issued and outstanding:				
At January 1	**5,650,000**	**₱565,000,000**	5,650,000	₱565,000,000
Issuance of Shares	**3,350,000**	**335,000,000**		
At December 31	**9,000,000**	**₱900,000,000**	5,650,000	₱565,000,000

On March 13, 2020, the BOD approved the increase in authorized capital stock of the Company from ₱600,000,000 divided into 6,000,000 shares at ₱100 par value to ₱1,300,000,000 divided into 13,000,000 shares at ₱100 par value. The Company applied and obtained approval of increase in authorized capital stock on August 24, 2021.

Movements in the contributed surplus follow:

	2021	2020
At January 1	**₱544,371,606**	₱376,355,766
Cash infusions	**–**	168,015,840
At December 31	**₱544,371,606**	₱544,371,606

Movements in the deposit for future stock subscription follow:

	2021	2020
At January 1	**₱335,000,000**	₱–
Cash infusions	**–**	335,000,000
Issuance of shares	**(335,000,000)**	–
At December 31	**₱–**	₱335,000,000

In February 2020, cash infusions were made by Pioneer and Meralco amounting to ₱441.05 million and ₱61.96 million, respectively, to comply with the minimum net worth requirement of ₱900.00 million. ₱335.00 million was booked as deposit for future stock subscription and ₱168.02 million was booked as contributed surplus.

Following the approval of increase in authorized capital in 2021, the Company issued 2,968,500 and 381,500 common shares to Pioneer and Meralco, respectively. The issuance resulted in transfer of deposit for future stock subscription to capital stock.

17. **Net Earned Premiums**

The analysis of net earned premiums follows:

	2021	2020
Gross premiums on insurance contracts:		
Direct insurance	**₱797,404,298**	₱659,485,043
Assumed reinsurance	**218,755,381**	279,760,948
Total gross premiums on insurance contracts (Note 13)	**1,016,159,679**	939,245,991
Gross change in provision for unearned premiums	**(61,605,873)**	(72,501,930)
Total gross earned premiums on insurance contracts (Note 13)	**954,553,806**	866,744,061
Reinsurers' share of gross premiums on		
Direct insurance	**610,045,650**	474,366,160
Assumed reinsurance	**76,018,829**	136,471,923
Total reinsurer's share on gross premiums (Note 13)	**686,064,479**	610,838,083
Reinsurers' share of gross change in provision for unearned premiums (Note 13)	**(63,072,173)**	(41,313,501)
Total reinsurers' share of gross earned premiums on insurance contracts (Note 13)	**622,992,306**	569,524,582
Net earned premiums (Note 13)	**₱331,561,500**	₱297,219,479

18. **Interest and Other Income**

Interest income consists of:

	2021	2020
Interest income on:		
Investment securities at amortized cost (Note 8)	**₱30,214,295**	₱21,849,038
Cash and cash equivalents (Note 6)	**6,880,947**	20,707,663
Funds held by ceding company	**100,791**	210,994
Others	**55,292**	73,911
	₱37,251,325	₱42,841,606

Others consist of:

	2021	2020
Unrealized foreign exchange gain (loss)	**₱4,951,655**	(₱1,563,396)
Realized foreign exchange gain	**869,899**	1,681,661
Miscellaneous Income	**543,624**	1,317,118
	₱6,365,178	₱1,435,383

Miscellaneous income pertains to income from insurance advisory services and risk carrying fee.

19. Net Insurance Benefits and Claims

This account consists of:

	2021	2020
Gross insurance contract benefits and claims paid	**₱434,030,520**	₱178,037,470
Reinsurers' share of gross insurance contract benefits and claims paid	**(299,274,541)**	(63,717,071)
Net benefits and claims paid (Note 13)	**134,755,979**	114,320,399
Gross change in insurance contract liabilities:		
Direct insurance	**(221,446,231)**	41,343,401
Change in provision for IBNR	**16,925,513**	23,994,765
Total gross change in insurance contract liabilities (Note 13)	**(204,520,718)**	65,338,166
Reinsurers' share on gross change in insurance contract liabilities:		
Direct insurance	**299,855,126**	1,387,864
Change in provision for IBNR	**23,211,634**	(395,946)
Reinsurers' share of gross change in insurance contract liabilities	**323,066,760**	991,918
Net change in insurance contract liabilities	**118,546,042**	66,330,084
Net insurance benefits and claims	**₱253,302,021**	₱180,650,483

20. General and administrative expenses

General and administrative expenses consist of:

	2021	2020
Salaries, allowances and employee benefits	**₱30,135,123**	₱29,850,409
Depreciation and amortization (Notes 11 and 22)	**11,007,274**	11,046,941
Retirement expense (Note 23)	**7,401,937**	1,582,095
Taxes and licenses	**7,249,733**	812,767
Professional fees	**4,108,126**	1,991,804
Entertainment, amusement and recreation	**2,731,795**	2,240,098
Transportation and travel	**2,344,307**	2,626,299
Repairs and maintenance	**2,129,958**	1,660,032
Communication and postage	**1,440,541**	1,461,319
Association dues and regulatory fees	**1,153,093**	794,560
Service fees and utilities	**608,980**	457,186
Advertising and promotion	**257,604**	297,668
Professional development	**191,743**	68,684
Rent (Note 22)	**187,564**	173,139
Supplies	**63,706**	286,544
Provision (reversal of provision) for impairment losses (Note 7)	**(4,547,757)**	370,375
Others	**3,120,523**	3,230,247
	₱69,584,250	₱58,950,167

Other expenses include meetings and conferences, insurance expenses, bank charges, books and periodicals, and miscellaneous expenses.

21. **Income Tax**

Income tax expense consists of:

	2021	2020
MCIT	**(₱7,696)**	₱589,695
Final	**7,443,462**	8,447,230
	₱7,435,766	₱9,036,925

Relevant tax updates
Revenue Regulations No. 25-2020
On September 30, 2020, the Bureau of Internal Revenue (BIR) has issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 of Republic Act No. 11494, otherwise known as "Bayanihan to Recover as One Act", allowing qualified businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

CREATE Bill
The Corporate Recovery and Tax Incentives for Enterprise (CREATE) bill aims to reduce the corporate income tax rate from 30% to 25% starting July 2020 and to rationalize the current fiscal incentives.

On February 3, 2021, the Bicameral Conference Committee approved the reconciled version of the CREATE Bill of the House of Representatives and the Senate. On March 26, 2021, the bill was signed into law.

The components of the net deferred tax liability are as follows:

	2021	2020
Deferred tax assets on:		
NOLCO	**₱848,481**	₱–
Deferred tax liability on:		
Unrealized forex gain	**(848,481)**	–
	₱–	₱–

The components of unrecognized deferred tax assets follow:

	2021	2020
Deferred tax asset (liability) through profit or loss:		
NOLCO	**₱40,816,744**	₱44,168,899
Provision for IBNR claims	**35,249,397**	30,258,133
Pension liability	**3,636,371**	2,776,408
Allowance for impairment losses	**3,199,714**	5,203,984
Excess of MCIT over RCIT	**581,999**	1,840,920
Accrued operating lease	**516,854**	442,829
Unrealized forex loss	**–**	467,320
	84,001,079	85,158,493
Deferred tax asset (liability) through OCI:		
Revaluation reserve for financial asset at FVOCI	**198,751**	221,794
Pension liability	**(151,391)**	98,967
	47,360	320,761
	₱84,048,439	₱85,479,254

The movements of unrecognized deferred tax assets are accounted for as follows:

	2021	2020
Amount related to profit or loss	**₱1,157,414**	₱32,832,280
Amount related to other comprehensive income	**273,401**	(118,057)
Decrease (increase) in deferred tax assets	**₱1,430,815**	₱32,714,223

As at December 31, 2021, the details of unexpired excess MCIT over RCIT, which may be claimed as deduction against income tax due are as follow:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Date
2018	₱1,251,225	₱–	₱1,251,225	₱–	December 31, 2021
2020	442,271	–	–	442,271	December 31, 2023
2021	139,728	–	–	139,728	December 31, 2024
	₱1,833,224	₱–	₱1,251,225	₱581,999	

In 2020, the excess MCIT over RCIT amounted to ₱0.59 million. Applying the provisions of the CREATE Act, the Company would have been subjected to lower minimum corporate income tax rate of 1% effective July 1, 2020. Accordingly, this resulted to a lower excess MCIT over RCIT amounting to ₱0.44 million or a reduction of ₱0.14 million.

The Company has incurred NOLCO prior to taxable year 2020 which can be claimed as deduction from the regular taxable income for the next three (3) consecutive taxable years, as follows:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Date
2019	₱146,184,756	₱–	₱–	₱146,184,756	December 31, 2022
2018	1,044,907	–	1,044,907	–	December 31, 2021

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(b) of "Bayanihan to Recover As One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

For taxable year 2021, the Company has incurred NOLCO which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act, as follows:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Date
2021	₱20,476,142	₱–	₱–	₱20,476,142	December 31, 2026

The reconciliation of income tax expense computed at statutory tax rate to the income tax expense shown in profit or loss follows:

	2021	2020
Income tax computed at statutory tax rate	**(₱5,315,919)**	₱5,309,142
Tax effects of:		
Expired NOLCO	**261,227**	40,395,236
Expired MCIT over RCIT	**1,251,225**	–
CREATE adjustments	**13,886,261**	–
Change in unrecognized deferred tax assets	**(1,157,414)**	(32,832,280)
Non-deductible expenses	**365,932**	547,906
Interest income subjected to final tax	**(1,855,546)**	(4,383,079)
	₱7,435,766	₱9,036,925

22. Right-of-Use Assets and Lease Liabilities

The Company has lease contracts covering its office, parking spaces and vehicle. The lease agreement for the office spaces is for five (5) years beginning October 16, 2019 to October 15, 2024. Rental is based on a pre-agreed monthly rate on the first year with a five percent (5%) annual escalation thereafter through the life of contract. The lease agreement for transportation vehicle is for five (5) years beginning September 6, 2018 to September 5, 2023.

Rollforward analysis of Right-of-use assets follows:

	Right-of-Use: Office Space and Parking Lot	Right-of-Use: Transportation Vehicle	Right-of-Use: Total
At January 1, 2020	₱33,866,761	₱813,333	₱34,680,094
Additions	86,361	–	86,361
At December 31, 2020	**33,953,122**	**813,333**	**34,766,455**
Additions	**90,685**	**–**	**90,685**
At December 31, 2021	**₱34,043,807**	**₱813,333**	**₱34,857,140**
Accumulated Depreciation			
At January 1, 2020	₱1,411,115	₱174,286	₱1,585,401
Depreciation	6,778,639	174,286	6,952,925
At December 31, 2020	**₱8,189,754**	**₱348,572**	**₱8,538,326**
Depreciation	**6,801,854**	**174,286**	**6,976,140**
At December 31, 2021	**₱14,991,608**	**₱522,858**	**₱15,514,466**
Net Book Value 2020	25,763,368	464,761	26,228,129
Net Book Value 2021	**₱19,052,199**	**₱290,475**	**₱19,342,674**

The rollforward analysis of lease liabilities follows:

	2021	2020
At January 1	**₱25,818,207**	₱31,544,332
Interest expense	**1,126,439**	1,427,882
Payments	**(7,554,885)**	(7,154,007)
As at December 31	**₱19,389,761**	₱25,818,207

The following are the amounts recognized in statements of income:

	2021	2020
Depreciation expense of right-of-use assets (included in general and administrative expenses)	**₱6,976,140**	₱6,952,925
Interest expense on lease liabilities	**1,126,439**	1,427,882
Expenses relating to short-term leases (included in general and administrative expenses)	**46,800**	46,800
Variable lease payments (included in general and administrative expenses)	**140,764**	126,339
Total amount recognized in statement of income	**₱8,290,143**	₱8,553,946

Shown below is the maturity analysis of the undiscounted lease payments:

	2021	2020
1 year	**₱7,882,630**	₱7,330,377
more than 1 years to 2 years	**8,218,822**	7,696,896
more than 2 years to 3 years	**4,560,089**	8,081,741
more than 3 years to 4 years	**–**	4,537,514
more than 5 years	**–**	–

23. Pension Liability

The Company accrues the minimum retirement benefit provided under Republic Act (R.A.) No. 7641 or the "Retirement Pay Law".

As at December 31, 2020, the Company's retirement plan remains unfunded and the retirement liability shown in the statements of financial position consists of the present value of net defined benefit obligation.

In 2021, the Company has adopted a noncontributory defined benefit plan covering all regular employees and which requires contributions to be made to a separately administered retirement fund. Benefits are based on the employee's years of service and final plan salary. The Board of Trustee of the plan is responsible for setting investment strategies. The Retirement Plan is considered a "reasonable private benefit plan" within the contemplation of Republic Act (R.A.) No. 4917. The effect of the change in retirement plan is reflected as past service cost.

The retirement plan of the Company is being administered by M Pioneer Ins. Inc. Staff Retirement Benefit Plan.

Retirement expense recognized in profit or loss (Note 20) follows:

	2021	2020
Current service cost	**₱1,012,387**	₱854,220
Interest cost	**387,171**	385,556
Net acquired (transferred) obligation	**(11,732)**	342,319
Past service cost	**6,014,111**	–
	₱7,401,937	₱1,582,095

The details of accumulated remeasurement (gain) loss on defined benefit obligation follows:

	2021	2020
At January 1	**₱329,890**	₱23,134
Actuarial loss (gain) on defined benefit obligation		
Changes in financial assumptions	**(1,625,137)**	805,360
Experience adjustment	**697,285**	(498,604)
	(927,852)	306,756
Return on plan assets	**(7,601)**	–
At December 31	**(₱605,563)**	₱329,890

The net pension obligation recognized in the statements of financial position follows:

	2021	2020
Present value of pension benefit obligation	**₱16,058,669**	₱9,584,584
Fair value of plan assets	**(12,007,601)**	–
	₱4,051,068	₱9,584,584

Changes in the present value of the defined benefit obligation for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
At January 1	**₱9,584,584**	₱7,695,733
Current service cost	**1,012,387**	854,220
Interest cost	**387,171**	385,556
Net acquired/(transferred) obligation	**(11,732)**	342,319
Actuarial loss (gain) on obligation recognized in OCI:		
Changes in financial assumptions	**(1,625,137)**	805,360
Experience adjustment	**697,285**	(498,604)
Past service cost	**6,014,111**	–
At December 31	**₱16,058,669**	₱9,584,584

In 2021, the Company transferred one employee to Pioneer while in 2020, the Company acquired one employee from Pioneer. The net transferred obligation resulted in net receivable from (payable to) Pioneer amounting to (₱0.01) million and ₱0.34 million as at December 31, 2021 and 2020, respectively (Note 15).

Changes in the present value of the fair value of plan assets for 2021 are as follows

At January 1, 2021	₱–
Contributions	12,000,000
Return on plan assets	7,601
At December 31	₱12,007,601

The principal actuarial assumptions used to determine retirement benefit cost for the Company as at December 31, 2021 and 2020, are shown below:

	2021	2020
Discount rate	**5.15%**	5.01%
Salary increase rate	**6.00%**	6.00%
Mortality rate	**2017 PICM**	2017 PICM
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	1952 Disability Study, Period 2, Benefit 5

The distribution of plan assets as of December 31, 2021 are as follows:

	2021
Cash and cash equivalents	₱4,368,039
Interest receivable	64,386
Investments in:	
Government securities	4,041,124
Unit Investment Trust Funds (UITFs)	3,598,395
	12,071,944
Less: Accounts payable and accrued expenses	64,342
	₱12,007,602

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, with all other assumptions constant, would have affected the retirement liability of the Company by the amounts shown below:

	Changes in Variables	Impact on present value of defined benefit obligation	
		2021	2020
Discount rate	+ 1.00%	**(₱1,207,735)**	(₱829,106)
	– 1.00%	**1,443,616**	1,004,127
Salary increase rate	+ 1.00%	**₱1,479,009**	₱1,007,116
	– 1.00%	**(1,260,936)**	(848,694)

Maturity analysis of the benefit payments:

Plan Year	**2021**	2020
Less than one year	**₱7,726,727**	₱2,277
One to less than five years	**1,073,241**	6,427,206
Five to less than 10 years	**5,557,387**	559,389
10 to less than 15 years	**11,627,120**	6,110,760
15 to less than 20 years	**13,887,961**	3,677,864
20 years and above	**43,922,609**	36,189,734

The weighted average duration of the defined benefit obligation is 20.17 years and 21.66 as at December 31, 2021 and 2020 respectively.

The defined benefit obligation exposes the Company to actuarial risks, such as longevity risks and interest risks.

The Company expects to contribute ₱9.5 million to the retirement fund in 2022. Currently, the Company does not employ any asset-liability matching strategy.

24. Related Party Transactions

Related Party Transactions and Relationships

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

Related party transactions are as follows:

Category/Transaction	Year	Amount of the Transaction	Outstanding Balance Due from Related Parties	Outstanding Balance Due to Related Parties	Terms	Conditions
Meralco						
	2021	**(₱4,475,272)**	**₱4,414,941**	**₱–**	**On demand; non-interest bearing**	**Unsecured; no impairment**
Premiums receivable	2020	₱6,231,000	₱8,890,213	₱–	On demand; non-interest bearing	Unsecured; no impairment
	2021	**(6,739,145)**	**–**	**16,088,100**	**On demand; non-interest bearing**	**Unsecured**
Insurance contract liabilities	2020	17,928,326	–	22,827,245	On demand; non-interest bearing	Unsecured
Cash Infusion	2020	61,960,880	–	–	On demand; non-interest bearing	Unsecured
Pioneer						
	2021	**12,728,761**	**170,709,122**	**–**	**On demand; non-interest bearing**	**Unsecured; no impairment**
Reinsurance receivables	2020	89,853,029	157,980,361	–	On demand; non-interest bearing	Unsecured; no impairment
	2021	**30,375**	**–**	**711,698**	**On demand; non-interest bearing**	**Unsecured; no impairment**
Accounts payable (Note 15)	2020	681,323	–	681,323	On demand; non-interest bearing	Unsecured; no impairment
	2021	**(107,961)**	**–**	**–**	**On demand; non-interest bearing**	**Unsecured; no impairment**
Loans and receivable	2020	107,961	–	107,961	On demand; non-interest bearing	Unsecured; no impairment
	2021	**11,482,525**	**–**	**60,434,282**	**On demand; non-interest bearing**	**Unsecured**
Due to reinsurers	2020	17,682,312	–	48,951,757	On demand; non-interest bearing	Unsecured
	2021	**202,713,557**	**–**	**442,330,836**	**On demand; non-interest bearing**	**Unsecured**
Insurance contract liabilities	2020	128,339,920	–	239,617,279	On demand; non-interest bearing	Unsecured
Cash Infusion	2020	441,054,960	–	–	On demand; non-interest bearing	Unsecured
Entities under Common Control						
	2021	**8,656,735**	**14,891,795**	**–**	**On demand; non-interest bearing**	**Unsecured; no impairment**
Reinsurance receivables	2020	4,625,147	6,235,060	–	On demand; non-interest bearing	Unsecured; no impairment
	2021	**919,380**	**–**	**6,786,215**	**On demand; non-interest bearing**	**Unsecured; no impairment**
Due to reinsurers	2020	(236,975)	–	5,866,835	**On demand; non-interest bearing**	**Unsecured; no impairment**
	2021	**(5,699,714)**	**–**	**28,204,709**	**On demand; non-interest bearing**	**Unsecured**
Insurance contract liabilities	2020	27,039,927	–	33,904,423	On demand; non-interest bearing	Unsecured
	2021	**(3,617,096)**	**10,949,725**	**–**	**On demand; non-interest bearing**	**Unsecured**
Premiums receivable	2020	(6,229,011)	14,566,821	–	On demand; non-interest bearing	Unsecured
	2021	**9,604,466**	**–**	**–**	**On demand; non-interest bearing**	**Unsecured**
Rental	2020	9,092,816	–	–	On demand; non-interest bearing	Unsecured
TOTAL	**2021**	**₱225,496,611**	**₱200,965,583**	**₱554,555,840**		
TOTAL	2020	₱798,131,615	₱187,672,455	₱351,956,823		

Premiums relate to one (1) year insurance policies issued to Meralco and other related entities under common control to cover certain assets.

In the ordinary course of business, the Company enters into transactions with its stockholders and affiliates. Under the Company's policy, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. Related party transactions are settled in cash.

Affiliates are other companies linked indirectly to the Company through interlocking directorship or officer ship and those under common significant influence and common control.

Compensation of Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director, whether executive or otherwise, of that entity. The amounts reflected below are included in "Salaries, allowances and employee benefits."

The key management personnel received short-term compensation amounting to ₱6.27 million and ₱6.16 million in 2021 and 2020, respectively.

25. Regulatory Requirements

Fixed Capitalization Requirements
The IC issued Circular Letter (CL) No. 2015-02-A to clarify the minimum capitalization and net worth requirements of new and existing insurance companies in the Philippines. According to the said CL, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

Minimum Net worth	Compliance Date
₱550,000,000	On or before December 31, 2016
900,000,000	On or before December 31, 2019
1,300,000,000	On or before December 31, 2022

As of December 31, 2021, the required minimum statutory net worth is ₱900.00 million. Refer to 'Risk Based Capital Requirements' below.

Risk Based Capital Requirements
For purposes of the December 31, 2021 and 2020 financial reporting, the Company determined its compliance with the RBC requirements of the IC based on the provisions of CL No. 2016-68. The circulars provide RBC frameworks for nonlife insurance companies in order to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every nonlife insurance company is annually required to maintain a minimum required RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the nonlife insurance company to the corresponding regulatory intervention which has been defined at various levels.

Pursuant to IC CL No. 2017-15, *Regulatory Requirements and Actions for the New Regulatory Framework*, effective January 1, 2017, nonlife insurance companies are required to maintain minimum RBC requirement as prescribed under IC CL No. 2016-68. Under the RBC Framework, the RBC ratio shall be calculated as total available capital divided by the RBC requirement.

The following table shows the Company's final RBC ratio as audited by the IC as of December 31, 2020.

Total Available Capital	₱984,215,844
RBC requirement	315,574,449
RBC Ratio	312%

The following table shows the estimated RBC ratio as of December 31, 2021 as determined by the Company based on IC CL 2016-68:

Total available Capital	₱963,653,371
RBC requirement	299,513,741
RBC Ratio	322%

As at December 31, 2021 and 2020, the estimated amounts of non-admitted assets, as defined under the insurance regulations, which are included in the statements of financial position are as follows:

	2021 (Estimated)	2020 (Actual)
Premium receivable	**₱375,290**	₱16,227,655
Loss reserve withheld	**–**	68,050
Amount recoverable from reinsurers, net	**–**	8,732
Financial asset at FVOCI	**–**	16,750
Property and equipment at net book value*	**7,638,984**	10,985,896
Right-of-use asset	**–**	478,966
Other assets	**44,813,150**	59,973,965
	₱52,827,424	₱87,760,014

**Excluding computers amounting to ₱1.08 million and ₱1.59 million as at December 31, 2021 and 2020, respectively.*

The final amount of the net worth can be determined only after the accounts of the Company have been examined by the IC.

The following table shows the total equity for compliance with Minimum Net Worth requirements as of December 31:

	2021 (Estimated)	2020 (Actual)
Total admitted assets	**₱2,843,852,069**	₱2,998,453,047
Total liabilities	**(1,924,310,330)**	(2,085,534,964)
Net worth	**919,541,739**	912,918,083
Required Minimum Net Worth	**900,000,000**	900,000,000
Excess net worth	**₱19,541,739**	₱12,918,083

In compliance with the minimum net worth requirement, the Board of Directors ("BOD") approved the call for capital contribution amounting to ₱503.01 million on February 27, 2020. Thereafter, Pioneer infused additional cash of ₱441.05 million and Meralco infused ₱61.96 million, resulting to change in equity ownership of the two (2) shareholder groups from 51% and 49%, respectively, to 65% and 35%, respectively.

Financial Reporting Framework
Pursuant to the powers vested in the Insurance Commissioner by Sections 189, 200, 437 and 438 of Republic Act (RA) No. 10607, otherwise known as the Insurance Code, as amended, the following regulatory requirements and actions for the new regulatory framework are hereby adopted and promulgated:

Circular Letter No. 2016-65, *Financial Reporting Framework* under Section 189 of the Amended Insurance Code (Republic Act No. 10607), prescribes the new financial reporting framework (FRF) that will be used for the statutory quarterly and annual reporting. This also includes rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies.

Circular Letter 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves*, prescribes the new valuation methodology for the non-life insurance companies. Non-life insurance companies will be changing the basis of valuation of their non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The incurred but not reported (IBNR) reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. A margin for adverse deviation is estimated based on standard projection techniques or combination of such techniques, such as but not limited to the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the Policy Liabilities at the 75th percentile level of sufficiency. Discount rates to be used shall be current risk-free rates. The rates shall exactly match the duration of the policy and the currency of the cash flows and shall be prescribed by IC.

Circular Letter 2018-18, *New Standards for Non-Life Insurance Policy Reserves*, superseded Circular Letters 2016-06 and 2016-67. Under this methodology of determining the ultimate premium liability, the concept of deferred acquisition cost is introduced. The premium liability to be recognized is the higher of the unearned premium reserve net of deferred acquisition cost or the unearned risks reserve.

26. Insurance Risk, Financial Risks and Capital Management

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

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

The operations of the Company are subject to the regulatory requirements of the IC and the SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions [e.g., net worth and risk-based capital (RBC) requirements]. Such restrictive provisions minimize the risk of default and insolvency of the Company and are aimed at ensuring the Company's ability to meet unforeseen liabilities as these arise.

Insurance Risk

The principal risk the Company faces under insurance contracts is the possible occurrence of an insured event resulting in uncertainty of the timing and amount of the resulting claim. This is influenced by the following factors:

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

The Company's exposure to insurance risk as at December 31, 2021 and 2020 is as follows:

	2021	2020
Outstanding claims provision (Note 13)	**₱1,168,462,580**	₱1,372,983,298
Less: Reinsurance recoverable on unpaid losses (Note 13)	**576,795,539**	899,862,299
	₱591,667,041	₱473,120,999

The foregoing risk exposure is mitigated by diversification across a portfolio of insurance contracts and geographical areas. The variability of risk is also improved by careful selection and implementation of underwriting strategy guidelines, as well as through reinsurance arrangements.

The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. Amounts of estimates during the accident year are based on adjusters' report. Other estimates are based on reasonable approximation after an evaluation of reported claims. Adjustment to the loss reserves is made on the year the ultimate cost of claim becomes more certain. Reserves are either released or increased depending on said amounts.

The table below sets out the concentration of claims and losses payable (excluding IBNR) by type of contract.

December 31, 2021

	Gross Insurance Contract Liabilities	**Reinsurers' Share of Liabilities**	**Net**
Fire	**₱548,693,034**	**₱196,678,063**	**₱352,014,971**
Engineering	**83,204,991**	**41,000,844**	**42,204,147**
General Accident	**35,773,592**	**11,024,722**	**24,748,870**
Motor	**27,120,635**	**27,265**	**27,093,370**
Marine	**4,485,974**	**130,105**	**4,355,869**
Aviation	**31,580**	**–**	**31,580**
Bonds	**220,395**	**–**	**220,395**
Personal accident	**2,516**	**2,265**	**251**
	₱699,532,717	**₱248,863,264**	**₱450,669,453**

December 31, 2020

	Gross Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Fire	₱704,143,337	₱440,178,687	₱263,964,650
Engineering	155,166,042	96,087,410	59,078,632
General Accident	32,871,092	12,290,216	20,580,876
Motor	22,568,329	29,707	22,538,622
Marine	5,268,542	130,104	5,138,437
Aviation	738,694	–	738,694
Bonds	220,395	–	220,395
Personal accident	2,517	2,266	252
	₱920,978,948	₱548,718,390	₱372,260,558

Key Assumptions

The principal assumptions underlying the estimates are the Company's past claims experience and industry levels. This includes assumptions in respect to inflation factor, handling cost and number of claims for each accident year. Judgment is used to assess the extent to which external factors such as judicial decision and government legislation affect the estimates.

Sensitivity Analysis

The insurance provisions are sensitive to the interest rate, discount rate and persistency assumptions. Because of delays that arise between occurrences of claims and their subsequent notifications and actual settlement, the provisions are not known with certainty at reporting dates.

	2021			
	Change in Assumptions	**Impact on Gross Insurance Contract Liabilities**	**Impact on Net Insurance Contract Liabilities**	**Impact on Income Before Income Tax**
Average claim costs	**5% increase**	**51,947,166**	**27,012,526**	**(27,147,589)**
Average number of claims	**5% increase**	**66,828,315**	**34,750,724**	**(34,924,477)**

In accordance with the claims development methodology, Insurance Contract Liabilities for 2021 and 2020 were developed based on the following:

	Gross Insurance Contract Liabilities for 2021					
Accident Year	**2017 and Prior Years**	**2018**	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate claims costs at the end of accident year	**₱2,027,537,048**	**₱265,059,405**	**₱788,968,049**	**₱290,460,433**	**₱783,752,422**	**₱783,752,422**
One year later	**1,676,339,429**	**299,576,683**	**718,607,253**	**417,524,156**	**–**	**417,524,156**
Two years later	**1,551,861,726**	**296,613,929**	**774,864,774**	**–**	**–**	**774,864,774**
Three years later	**1,552,023,882**	**232,259,818**	**–**	**–**	**–**	**232,259,818**
Four years later	**1,306,549,505**	**–**	**–**	**–**	**–**	**1,306,549,505**
Current estimate of cumulative claims	**1,306,549,505**	**232,259,818**	**774,864,774**	**417,524,156**	**783,752,422**	**3,514,950,675**
Cumulative payments to date	**1,232,351,110**	**210,015,308**	**619,563,721**	**244,203,100**	**40,354,856**	**2,346,488,095**
Liability recognized in the statements of financial position	**₱74,198,395**	**₱22,244,510**	**₱155,301,053**	**₱173,321,056**	**₱743,397,566**	**₱1,168,462,580**

	Gross Insurance Contract Liabilities for 2020					
Accident Year	2016 and Prior Years	2017	2018	2019	2020	Total
Estimate of ultimate claims costs at the end of accident year	₱1,738,018,817	₱289,518,231	₱265,059,405	₱788,968,049	₱742,464,783	₱742,464,783
One year later	1,452,041,340	224,298,089	299,576,683	718,607,253	–	718,607,253
Two years later	1,328,903,943	222,957,783	296,613,929	–	–	296,613,929
Three years later	1,328,759,790	223,264,092	–	–	–	223,264,092
Four years later	1,304,490,816	–	–	–	–	1,304,490,816
Current estimate of cumulative claims	1,304,490,816	223,264,092	296,613,929	718,607,253	742,464,783	3,285,440,873
Cumulative payments to date	1,231,593,042	208,555,802	274,583,931	180,333,951	17,390,849	1,912,457,575
Liability recognized in the statements of financial position	₱72,897,774	₱14,708,290	₱22,029,998	₱538,273,302	₱725,073,934	₱1,372,983,298

Details of the net loss presented in the following tables reflect the cumulative incurred claims, including both claims notified and IBNR claims, for each successive accident year at each reporting date, together with the cumulative payments to date.

	Net Insurance Contract Liabilities for 2021					
Accident Year	**20117 and Prior Years**	**2018**	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate claims costs at the end of accident year	**₱441,103,270**	**₱46,872,891**	**₱273,124,040**	**₱133,855,304**	**₱317,326,777**	**₱317,326,777**
One year later	**480,856,822**	**52,614,183**	**299,823,210**	**257,704,641**	**–**	**257,704,641**
Two years later	**455,258,159**	**49,715,649**	**249,337,625**	**–**	**–**	**249,337,625**
Three years later	**471,362,438**	**97,980,633**	**–**	**–**	**–**	**97,980,633**
Four years later	**384,795,889**	**–**	**–**	**–**	**–**	**384,795,889**
Current estimate of cumulative claims	**384,795,889**	**97,980,633**	**249,337,625**	**257,704,641**	**317,326,777**	**1,307,145,565**
Less cumulative payments to date	**335,470,116**	**79,587,432**	**118,627,783**	**145,096,438**	**36,696,755**	**715,478,524**
Net insurance liability recognized in the statements of financial position	**₱49,325,773**	**₱18,393,201**	**₱130,709,842**	**₱112,608,203**	**₱280,630,022**	**₱591,667,041**

	Net Insurance Contract Liabilities for 2020					
Accident Year	2016 and Prior Years	2017	2018	2019	2020	Total
Estimate of ultimate claims costs at the end of accident year	₱345,316,325	₱95,786,945	₱46,872,891	₱273,124,040	₱234,715,745	₱234,715,745
One year later	390,649,507	90,207,315	52,614,183	299,823,210	–	299,823,210
Two years later	365,137,601	90,120,558	49,715,649	–	–	49,715,649
Three years later	381,394,525	89,967,913	–	–	–	89,967,913
Four years later	379,621,027	–	–	–	–	379,621,027
Current estimate of cumulative claims	379,621,027	89,967,913	49,715,649	299,823,210	234,715,745	1,053,843,544
Less cumulative payments to date	334,641,548	78,638,695	31,976,384	119,997,122	15,468,796	580,722,545
Net insurance liability recognized in the statements of financial position	₱44,979,479	₱11,329,218	₱17,739,265	₱179,826,088	₱219,246,949	₱473,120,999

Financial Risk
The Company is exposed to financial risk through its financial assets and financial liabilities. The significant risks that the Company faces are credit risk, liquidity risk and market risk.

Credit Risk
Credit risk is the risk that a counterparty will not be able to meet its contractual obligations resulting in financial loss to the Company.

Credit risk limit is used to manage credit exposure, which specifies credit exposure limit for each counterparty depending on its size and financial well-being.

Company considers a financial asset to be in default when the borrower is unlikely to pay its obligations to the Company in full, without recourse by the Company to actions such as realizing any collateral.

The Company considers a debt security to have low credit risk when: i) the debt security has a low risk of default; ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Write-off
The gross carrying amount of a financial asset is written-off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. Financial assets written-off are no longer subject to enforcement activities of the Company.

The Company applied the simplified approach in measuring ECLs which uses a lifetime expected loss allowance for all trade receivables.

To measure the ECLs, trade receivables have been grouped by shared credit risk characteristics based on customer type and determines ECL for each group, considering actual credit loss experience over the last 24 months and the Company's view of economic conditions over the expected lives of the trade receivables.

The Company has identified the Bank Lending Rates, Policy Rates (effective date), and CPI All items to be the most relevant macroeconomic factors that affect the ability of the customers to settle the receivables. The Company does not have trade receivable for which no allowance is recognized because of collateral.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statements of financial position (or in the detailed analysis provided in the notes to the financial statements), summarized as follows:

	2021	2020
Cash in bank and cash equivalents (Note 6)	**₱713,272,134**	₱740,306,727
Insurance receivables (Note 7)	**362,651,755**	373,805,366
Investment securities at amortized cost (Note 8)	**894,641,197**	787,726,944
Loans and receivable (Note 8)	**6,735,833**	6,589,430
Other assets*	**1,953,379**	1,862,693
	₱1,979,254,298	₱1,910,291,160

**Excluding creditable withholding taxes and miscellaneous*

The following tables summarize the credit quality of the Company's financial assets based on their historical experience with the corresponding third parties:

	2021					
	Neither Past Due nor Impaired			**Past Due but**		
	Grade A	**Grade B**	**Grade C**	**not Impaired**	**Impaired**	**Total**
Cash in banks and cash equivalents and Short-term investments	**₱713,272,134**	**₱–**	**₱–**	**₱–**	**₱–**	**₱713,272,134**
Insurance receivables – net	–	–	**105,140,866**	**257,510,889**	**(12,798,857)**	**349,852,898**
Investment securities at amortized cost	–	**894,641,197**	–	–	–	**894,641,197**
Loans and receivable	**6,735,833**	–	–	–	–	**6,735,833**
Other assets*	–	**1,953,379**	–	–	–	**1,953,379**
	₱720,007,967	**₱896,594,576**	**₱105,140,866**	**₱257,510,889**	**(12,798,857)**	**₱1,966,455,441**

**Excluding creditable withholding taxes and miscellaneous*

	2020					
	Neither Past Due nor Impaired			Past Due but		
	Grade A	Grade B	Grade C	not Impaired	Impaired	Total
Cash in banks and cash equivalents and Short-term investments	₱740,306,727	₱–	₱–	₱–	₱–	₱740,306,727
Insurance receivables – net	–	–	110,183,463	263,621,903	(17,346,614)	356,458,752
Investment securities at amortized cost	–	787,726,944	–	–	–	787,726,944
Loans and receivable	6,589,430	–	–	–	–	6,589,430
Other assets*	–	1,862,693	–	–	–	1,862,693
	₱746,896,157	₱789,589,637	₱110,183,463	₱263,621,903	(17,346,614)	₱1,892,944,546

**Excluding creditable withholding taxes and miscellaneous*

The Company classifies its unimpaired financial assets into the following credit grades:

- Grade A pertains to those financial assets that are consistently collected before the maturity date.
- Grade B includes financial assets that are collected on their due dates without an effort from the Company to follow them up.
- Grade C pertains to financial assets which are collected on their due dates and require Company's persistent effort to collect.
- Past due but not impaired include those financial assets outstanding beyond their due date but still collectible.

The aging of the insurance receivable as at December 31, is as follows:

	2021				
	Current	**31 to 60 Days**	**61 to 90 Days**	**More than 90 Days**	**Total**
Premiums receivable	**₱8,009,768**	**₱32,789,346**	**₱16,607,834**	**₱ 63,388,310**	**₱120,795,258**
Due from ceding companies	**4,086,674**	**1,843,424**	**9,314,153**	**132,449,000**	**147,693,251**
Funds held by ceding companies	**14,692,702**	**–**	**–**	**5,287,755**	**19,980,457**
Reinsurance recoverable on paid losses	**864,490**	**4,684,724**	**12,247,751**	**56,385,824**	**74,182,789**
	₱27,653,634	**₱39,317,494**	**₱38,169,738**	**₱257,510,889**	**₱362,651,755**

	2020				
	Current	31 to 60 Days	61 to 90 Days	More than 90 Days	Total
Premiums receivable	₱46,406,725	₱10,959,465	₱19,794,842	₱65,007,304	₱142,168,336
Due from ceding companies	4,864,955	3,731,180	12,141,237	145,221,451	165,958,823
Funds held by ceding companies	5,763,490	–	–	8,375,046	14,138,536
Reinsurance recoverable on paid losses	251,806	6,144,953	124,810	45,018,102	51,539,671
	₱57,286,976	₱20,835,598	₱32,060,889	₱263,621,903	₱373,805,366

Set out below is the information about the credit risk exposure on the Company's insurance receivable using a provision matrix.

December 31, 2021

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount	**₱–**	**₱105,140,866**	**₱257,510,889**	**₱362,651,755**
ECL	**–**	**402,645**	**12,396,212**	**12,798,857**

December 31, 2020

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	₱–	₱110,183,463	₱263,261,903	₱373,445,366
ECL	–	833,665	16,512,949	17,346,614

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty meeting its financial obligations. Liquidity risk may result from either inability to sell financial assets quickly at their fair values or the Company's inability to generate cash flows to repay financial liability when due.

The Company manages liquidity through regular monitoring of its cash position to ensure that maturing liabilities will be adequately met.

As at December 31, 2021 and 2020, the Company's financial assets exceeded the financial liabilities as shown in the tables below using undiscounted contractual maturities.

	2021						
	Less than 1 Year	**More than 1 - 2 Years**	**More than 2 - 3 Years**	**More than 3 - 4 Years**	**More than 4 - 5 Years**	**More than 5 Years**	**Total**
Financial Assets							
Cash and cash equivalents[1]	**₱713,626,162**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱713,626,162**
Insurance receivable - net	**349,852,898**	–	–	–	–	–	**349,852,898**
Investments:							
Financial asset at fair value through OCI	**344,401**	–	–	–	–	–	**344,401**
Investment securities at amortized cost[1]	**427,831,070**	**190,907,352**	**175,472,374**	**54,280,000**	–	**50,000,000**	**898,490,796**
Loans and receivable[2]	**2,532,206**	–	–	–	–	–	**2,532,206**
Recoverable on unpaid losses	**576,795,539**	–	–	–	–	–	**576,795,539**
Other assets[3]	**1,953,379**	–	–	–	–	–	**1,953,379**
Total Financial Assets	**2,072,935,655**	**190,907,352**	**175,472,374**	**54,280,000**	–	**50,000,000**	**2,543,595,381**
Financial Liabilities							
Commission payable	**23,599,609**	–	–	–	–	–	**23,599,609**
Accounts payable - others[4]	**2,157,602**	–	–	–	–	–	**2,157,602**
Insurance payables	**237,446,493**	–	–	–	–	–	**237,446,493**
Lease liabilities	**7,882,630**	**8,218,822**	**4,560,089**	–	–	–	**20,661,541**
Outstanding claims provision	**1,168,462,580**	–	–	–	–	–	**1,168,462,580**
Total Financial Liabilities	**1,439,548,914**	**8,218,822**	**4,560,089**	–	–	–	**1,452,327,825**
Net Liquidity Surplus	**₱633,386,741**	**₱182,688,530**	**₱170,912,285**	**₱54,280,000**	**₱–**	**₱50,000,000**	**₱1,091,267,556**

[1]Includes future interest
[2]Excluding interest receivable
[3]Excluding creditable withholding tax and miscellaneous
[4]Included under "Accounts and other payable" account

	2020						
	Less than 1 Year	More than 1 - 2 Years	More than 2 - 3 Years	More than 3 - 4 Years	More than 4 - 5 Years	More than 5 Years	Total
Financial Assets							
Cash and cash equivalents[1]	₱741,077,813	₱–	₱–	₱–	₱–	₱–	₱741,077,813
Insurance receivable - net	356,458,752	–	–	–	–	–	356,458,752
Investments:							
Financial asset at fair value through OCI	400,091	–	–	–	–	–	400,091
Investment securities at amortized cost[1]	273,247,819	165,161,247	191,000,000	117,500,000	42,500,000	–	789,409,066
Loans and receivable[2]	2,130,525	–	–	–	–	–	2,130,525
Recoverable on unpaid losses	899,862,299	–	–	–	–	–	899,862,299
Other assets[3]	1,862,693	–	–	–	–	–	1,862,693
Total Financial Assets	2,275,039,992	165,161,247	191,000,000	117,500,000	42,500,000	–	2,791,201,239
Financial Liabilities							
Commission payable	21,571,384	–	–	–	–	–	21,571,384
Accounts payable – others[4]	4,901,976	–	–	–	–	–	4,901,976
Insurance payables	257,934,405	–	–	–	–	–	257,934,405
Lease liabilities	7,330,377	7,696,896	8,081,741	4,537,514	–	–	27,646,528
Outstanding claims provision	1,372,983,298	–	–	–	–	–	1,372,983,298
Total Financial Liabilities	1,664,721,440	7,696,896	8,081,741	4,537,514	–	–	1,685,037,591
Net Liquidity Surplus	₱610,318,552	₱157,464,351	₱182,918,259	₱112,962,486	₱42,500,000	₱–	₱1,106,163,648

[1]Includes future interest
[2]Excluding interest receivable
[3]Excluding creditable withholding tax and miscellaneous
[4]Included under "Accounts and other payable" account

It is unusual for the Company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied to insurance contracts to ascertain the likely provision and time period when such liabilities will require settlement. The amount and maturities in respect of insurance liabilities are thus based on management's best estimate and on statistical techniques and past experiences.

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

The Company manages market risk by ensuring it has a diversified portfolio of investments approved by the BOD and in compliance with the guidelines of the IC. The funds are generally held in short and medium-term instrument, ensuring good returns while minimizing market risk.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The Company's exposure to foreign currency risk based on notional amounts as at December 31, 2021 and 2020 follows:

	2021		2020	
	US Dollar	**Philippine peso**	US Dollar	Philippine peso
Cash in banks[1]	**$2,847,870**	**₱145,238,534**	$298,632	₱14,341,205
Premiums receivable	**–**	**–**	98,538	4,732,105

The exchange rates used are ₱50.999 to US$1 in 2021 and ₱48.023 to US$1 in 2020

The table below demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's income before income tax and equity.

	Increase/Decrease in US Dollar Exchange Rate	**Effect on Income Before Income Tax**	**Effect on Equity**
2021	**+4.32%**	**₱6,270,123**	**4,389,086**
	-4.32%	**(₱6,270,123)**	**(4,389,086)**
2020	+28.53%	₱5,441,955	3,809,369
	-28,53%	(₱5,441,955)	(3,809,369)

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

The Company manages its interest rate risk by minimizing the duration of its fixed rates financial assets.

Price Risk
The Company's price risk exposure at each reporting period date relates to financial assets and liabilities whose values fluctuates as a result of changes in market price of financial assets at FVOCI/AFS financial assets. However, changes in price risk affecting financial assets at FVOCI/AFS financial assets do not have significant impact on the financial statements considering the insignificant amount of financial assets at FVOCI/AFS financial assets as at December 31, 2021 and 2020.

Capital Management
The Company's objectives when managing capital is to maintain a certain level of capital structure to ensure compliance with minimum net worth capital requirements imposed by IC as well as to adequately protect the claims of the Company's policyholders (Note 25).

The Company regards the following as the capital it manages as at December 31:

	2021	2020
Capital stock	**₱900,000,000**	₱565,000,000
Contributed surplus	**544,371,606**	544,371,606
Deposit for future stock subscription	**–**	335,000,000
Reserve for retirement liability (Note 23)	**605,563**	(329,890)
Revaluation reserve on AFS financial assets (Note 8)	**(795,004)**	(739,314)
Deficit	**(471,813,002)**	(443,113,559)
	₱972,369,163	₱1,000,188,843

There were no changes in the Company's approach to capital management during the year (Note 25).

27. **Fair Value Measurement**

The fair values of cash and cash equivalents, interest receivable, receivable from employee, other receivables, accounts payable and accrued expenses, reinsurance liabilities and outstanding claims provision approximate their carrying amounts due to the relatively short-term in nature.

Fair Value Hierarchy
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: inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Quoted and unquoted equity securities classified under Financial asset at FVOCI are categorized under Level 1 and Level 2 respectively, of the fair value hierarchy. Fair values of unquoted equity securities are derived based on the adjusted net asset value method.

	2021				
	Carrying Value	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets measured at fair value:					
Financial asset at FVOCI					
Quoted equity securities	**₱325,380**	**₱325,380**	**₱–**	**₱–**	**₱325,380**
Unquoted equity securities	**19,021**	**–**	**19,021**	**–**	**19,021**
Assets for which fair values are disclosed:				**–**	
Investment securities at amortized cost				**–**	
Government debt securities	**741,642,398**	**101,657,587**	**650,322,755**	**–**	**751,980,342**
Corporate debt securities	**152,998,800**	**151,808,265**	**–**	**–**	**151,808,265**
Total financial assets	**₱894,985,599**	**₱253,791,232**	**₱650,341,776**	**₱–**	**₱904,133,008**

	2020				
	Carrying Value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:					
Financial asset at FVOCI					
Quoted equity securities	₱363,341	₱363,341	₱–	₱–	₱363,341
Unquoted equity securities	36,750	–	36,750	–	36,750
Assets for which fair values are disclosed:					
Investment securities at amortized cost					
Government debt securities	676,726,944	107,675,204	595,402,503	–	703,077,707
Corporate debt securities	111,000,000	110,920,748	–	–	110,920,748
Total financial assets	₱788,127,035	₱218,959,293	₱595,439,253	₱–	₱814,398,546

There were no transfers between level 1 and level 2, and no transfers into and out of level 3 fair value measurement during 2021 and 2020.

28. Supplementary Information Required under Revenue Regulations No. 15-2010

The Company reported and/or paid the following types of taxes in 2021:

Value Added Tax (VAT)
Net sales/receipts and output VAT declared in the Company's VAT returns filed for the fiscal year are as follows:

	Net Sales/Receipt	Output VAT
Vatable sales	₱801,588,466	₱96,190,616
Zero-rated /exempt	21,320,598	–
	₱822,909,064	₱96,190,616

The Company incurred zero-rated sales composed of sales to entities registered with the Philippine Economic Zone Authority (or other free trade zones). This is in accordance with National Internal Revenue Code Section 106 (A) (2) and 108 (B).

Details of the input VAT claimed broken down as follows:

Balance at January 1, 2021	₱701,276
Current year's domestic purchases	
Domestic purchase of capital goods not exceeding ₱1,000,000	20,085
Domestic purchase of capital goods exceeding ₱1,000,000	–
Domestic purchase of services	12,872,805
Domestic purchases of goods other than capital goods	1,039,122
Other Adjustments	(443,527)
Input VAT applied for the year	(14,189,761)
	₱–

Documentary Stamp Tax

On policies issued	₱100,499,323

Withholding Taxes

Tax on compensation and benefits	₱2,665,543
Expanded withholding taxes	7,692,106
Final withholding taxes	8,725
	₱10,366,374

Other Taxes and Licenses

Documentary stamp tax	₱3,915,499
Fees in the increase in Authorized Capital stock	1,415,070
License and permit fees	585,394
Payment for BIR assessment	1,040,086
Others	293,684
	₱7,249,733

Tax Assessments and Cases

The Company has no deficiency tax assessment with the Bureau of Internal Revenue or any tax case, litigation, and/or prosecution in courts or bodies outside the Bureau of Internal Revenue as of December 31, 2021.

SGV
Building a better
working world

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
M Pioneer Insurance Inc.
7th Floor Tower 1, The Rockwell Business Center
Ortigas Avenue, Pasig City

We have audited the financial statements of M Pioneer Insurance Inc. (the "Company"), as at December 31, 2021 and for the year ended, on which we have rendered the attached report dated March 18, 2021.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Company has two (2) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
Tax Identification No. 178-486-666
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 0926-AR-3 (Group A)
July 25, 2019, valid until July 24, 2022
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-081-2021, February 1, 2021, valid until January 31, 2024
PTR No. 8854354, January 3, 2022, Makati City

March 18, 2022