Beneficial Life Insurance Company, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2021, 2020 and 2019

With independent auditors' report provided by

REYES TACANDONG & CO.
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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Beneficial Life Insurance Company, Inc. and Subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of Beneficial Life Insurance Company, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2021, 2020 and 2019, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its cash flows for the years ended December 31, 2021, 2020 and 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2021, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement) and SEC Form 17-A for the year ended December 31, 2021 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

REYES TACANDONG & CO.

DARRYLL REESE Q. SALANGAD
Partner
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Tax Identification No. 227-770-760-000
BOA Accreditation No. 4782; Valid until April 13, 2024
SEC Accreditation No. 1788-A
Valid until October 14, 2022
BIR Accreditation No. 08-005144-016-2019
Valid until July 2, 2022
PTR No. 8851719
Issued January 3, 2022, Makati City

April 7, 2022
Makati City, Metro Manila

BENEFICIAL LIFE INSURANCE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2021**	2020
ASSETS			
Cash and cash equivalents	4	**₱1,309,862,690**	₱972,303,861
Short-term investments	4	**11,880,219**	62,796,981
Insurance receivables	5	**36,080,607**	33,538,391
Investment securities	6	**6,024,903,376**	5,682,055,270
Loans receivables	7	**1,263,540,123**	1,390,963,245
Accrued investment income	6	**64,048,218**	72,813,698
Property and equipment:	8		
At revalued amount		**649,250,307**	647,715,036
At cost		**22,606,953**	24,239,772
Net deferred tax assets	23	**–**	248,976
Other assets		**95,636,691**	89,146,809
		₱9,477,809,184	₱8,975,822,039

LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities	9	**₱4,881,495,227**	₱4,912,423,179
Policyholders' dividends payable	10	**130,592,414**	142,208,734
Premium deposit fund	11	**311,114,991**	322,498,519
Insurance payables	12	**85,776,580**	94,278,156
Loans payable	13	**4,811,634**	23,286,209
Accounts payable and accrued expenses	14	**161,286,692**	161,204,052
Net retirement liability	22	**152,145,961**	138,996,571
Net deferred tax liabilities	23	**87,288,622**	90,917,944
Income tax payable		**560,325**	3,658,568
Other liabilities	15	**234,234,971**	216,280,214
Total Liabilities		**6,049,307,417**	6,105,752,146
Equity			
Capital stock		**626,756,494**	626,756,494
Additional paid-in capital		**489,265,675**	489,265,675
Retained earnings:	16		
Appropriated		**90,010,323**	42,873,792
Unappropriated		**1,865,227,773**	1,632,652,204
Other comprehensive income		**357,241,502**	78,521,728
Total Equity		**3,428,501,767**	2,870,069,893
		₱9,477,809,184	₱8,975,822,039

See accompanying Notes to Consolidated Financial Statements.

BENEFICIAL LIFE INSURANCE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	Note	**2021**	2020	2019
REVENUES				
Gross premiums on insurance contracts	18	**₱1,761,212,819**	₱1,658,761,570	₱1,668,843,509
Reinsurer's share of gross premiums on insurance contracts	18	**(39,897,729)**	(15,258,231)	(16,953,935)
Net insurance premiums		**1,721,315,090**	1,643,503,339	1,651,889,574
Interest income	4	**295,364,458**	327,209,477	431,700,468
Dividend income	6	**33,280,478**	28,052,375	20,584,189
Net fair value gain on financial assets at fair value through profit or loss (FVPL)	6	**5,075,212**	13,762,986	41,548,414
Gain on sale of investment securities	6	**13,361,893**	7,357,288	18,618,469
Rental income	24	**2,362,288**	3,469,090	4,563,986
Other income		**28,837,311**	16,965,580	17,071,220
		2,099,596,730	2,040,320,135	2,185,976,320
BENEFITS, CLAIMS AND EXPENSES				
Net benefits and claims incurred on insurance contracts	19	**1,191,656,328**	783,857,598	822,912,977
Net change in legal policy reserves	19	**15,824,425**	208,594,487	297,728,566
Net insurance benefits and claims		**1,207,480,753**	992,452,085	1,120,641,543
General and administrative expenses	20	**507,231,953**	488,407,306	465,778,035
Commission and other direct expenses	21	**181,433,269**	216,055,062	274,292,132
Insurance taxes		**34,062,470**	31,268,931	31,340,762
Finance costs and charges	21	**22,761,628**	35,477,979	35,910,878
		1,952,970,073	1,763,661,363	1,927,963,350
INCOME BEFORE FOREIGN EXCHANGE CHANGES AND IMPAIRMENT LOSSES		**146,626,657**	276,658,772	258,012,970
NET FOREIGN EXCHANGE GAIN (LOSS)		**156,790,646**	(111,880,062)	(83,119,139)
PROVISION FOR (REVERSAL OF) IMPAIRMENT LOSSES				
Loans receivables	7	**9,991,075**	38,998,407	35,541,595
Investment securities	6	**1,002,230**	10,985,211	(9,045,552)
Other assets	3	**3,878,206**	–	–
		14,871,511	49,983,618	26,496,043
INCOME BEFORE INCOME TAX		**288,545,792**	114,795,092	148,397,788
INCOME TAX EXPENSE (BENEFIT)	23			
Current		**1,260,918**	6,100,466	14,926,388
Final		**23,201,226**	24,507,310	24,657,771
Deferred		**23,498,372**	(36,965,371)	(521,827)
		47,960,516	(6,357,595)	39,062,332
NET INCOME		**₱240,585,276**	₱121,152,687	₱109,335,456

(Forward)

	Note	Years Ended December 31 **2021**	2020	2019
NET INCOME		**₱240,585,276**	₱121,152,687	₱109,335,456
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be reclassified to profit or loss in subsequent periods:				
Change in revaluation reserves on investment securities [debt instruments classified as financial assets at fair value through other comprehensive income (FVOCI)]	6	**(44,925,470)**	84,685,053	269,667,728
Cumulative translation adjustment		**(9,180,652)**	(6,130,889)	(5,598,080)
		(54,106,122)	78,554,164	264,069,648
Items that will not be reclassified to profit or loss in subsequent periods:				
Remeasurement gain (loss) on legal policy reserves	9	**324,661,380**	(481,778,294)	(112,342,032)
Change in revaluation reserves on investment securities (equity securities classified as financial assets at FVOCI)	6	**(2,266,495)**	(7,860,631)	(57,437,705)
Remeasurement loss on retirement liability - net of deferred tax	22	**(10,355,674)**	(3,393,708)	(14,302,087)
Increase in revaluation surplus - net of deferred tax	8	**–**	–	184,222,750
		312,039,211	(493,032,633)	140,926
		257,933,089	(414,478,469)	264,210,574
TOTAL COMPREHENSIVE INCOME (LOSS)		**₱498,518,365**	(₱293,325,782)	₱373,546,030

See accompanying Notes to Consolidated Financial Statements.

BENEFICIAL LIFE INSURANCE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31		
	Note	**2021**	2020	2019
CAPITAL STOCK - ₱1 par value				
Authorized - 1,000,000,000 shares				
Issued and outstanding - 626,756,494 shares		**₱626,756,494**	₱626,756,494	₱626,756,494
ADDITIONAL PAID-IN CAPITAL		**489,265,675**	489,265,675	489,265,675
RETAINED EARNINGS				
Appropriation for negative legal policy reserves	16			
Balance at beginning of year		**42,873,792**	80,623,116	112,561,902
Appropriation for (reversal of) negative legal policy reserves		**47,136,531**	(37,749,324)	(31,938,786)
Balance at end of year		**90,010,323**	42,873,792	80,623,116
Unappropriated				
Balance at beginning of year		**1,632,652,204**	1,480,482,230	1,390,529,020
Net income		**240,585,276**	121,152,687	109,335,456
Reversal of (appropriation for) negative legal policy reserves	16	**(47,136,531)**	37,749,324	31,938,786
Transfer from revaluation reserves on investment securities	6	**35,347,300**	(10,511,561)	(28,536,680)
Transfer of revaluation surplus	8	**3,779,524**	3,779,524	6,673,203
Dividend declaration	16	**–**	–	(29,457,555)
Balance at end of year		**1,865,227,773**	1,632,652,204	1,480,482,230
		1,955,238,096	1,675,525,996	1,561,105,346
OTHER COMPREHENSIVE INCOME (LOSS)				
Revaluation reserves on investment securities				
Balance at beginning of year		**(47,731,309)**	(124,555,731)	(336,785,754)
Change in revaluation reserves	6	**(47,191,965)**	76,824,422	212,230,023
Balance at end of year		**(94,923,274)**	(47,731,309)	(124,555,731)
Revaluation surplus on property and equipment - net of deferred tax	8			
Balance at beginning of year		**330,698,577**	333,344,244	153,792,736
Appraisal increase		**–**	–	184,222,750
Transfer of revaluation surplus		**(2,834,643)**	(2,645,667)	(4,671,242)
Effect of change in income tax rate		**23,621,328**	–	–
Balance at end of year		**351,485,262**	330,698,577	333,344,244

(Forward)

		Years Ended December 31		
	Note	**2021**	2020	2019
Cumulative remeasurement gain (loss) on legal policy reserves	9			
Balance at beginning of year		**(₱201,662,671)**	₱280,115,623	₱392,457,655
Remeasurement gain (loss) on legal policy reserves		**324,661,380**	(481,778,294)	(112,342,032)
Balance at end of year		**122,998,709**	(201,662,671)	280,115,623
Cumulative remeasurement loss on retirement liability - net of deferred tax	22			
Balance at beginning of year		**(11,963,521)**	(8,569,813)	5,732,274
Remeasurement loss on retirement liability		**(9,501,137)**	(3,393,708)	(14,302,087)
Effect of change in income tax rate		**(854,537)**	–	–
Balance at end of year		**(22,319,195)**	(11,963,521)	(8,569,813)
Cumulative translation adjustment				
Balance at beginning of year		**9,180,652**	15,311,541	20,909,621
Translation adjustment		**(9,180,652)**	(6,130,889)	(5,598,080)
Balance at end of year		**–**	9,180,652	15,311,541
		357,241,502	78,521,728	495,645,864
		₱3,428,501,767	₱2,870,069,893	₱3,172,773,379

See accompanying Notes to Consolidated Financial Statements.

BENEFICIAL LIFE INSURANCE COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 **2021**	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱288,545,792**	₱114,795,092	₱148,397,788
Adjustments for:				
Interest income	4	**(295,364,458)**	(327,209,477)	(431,700,468)
Unrealized foreign exchange loss (gain)		**(53,084,477)**	99,621,598	71,600,123
Dividend income	6	**(33,280,478)**	(28,052,375)	(20,584,189)
Depreciation	8	**19,843,115**	22,684,704	28,455,993
Retirement benefits cost	22	**15,545,062**	23,078,622	18,186,486
Finance costs	21	**13,847,184**	27,406,267	25,652,335
Gain on sale of investment securities	6	**(13,361,893)**	(7,357,288)	(18,618,469)
Provision for impairment losses on:				
Loans receivables	7	**9,991,075**	38,998,407	35,541,595
Investment securities	6	**1,002,230**	10,985,211	(9,045,552)
Other assets	3	**3,878,206**	–	–
Net fair value loss on financial assets at FVPL	6	**(5,075,212)**	(13,762,986)	(41,548,414)
Operating loss before working capital changes		**(47,513,854)**	(38,812,225)	(193,662,772)
Decrease (increase) in:				
Short-term investments		**50,916,762**	(2,296,981)	(9,765,010)
Insurance receivables		**(2,542,216)**	56,155,323	(66,663,175)
Loans receivables		**117,432,047**	233,839,275	202,568,875
Increase (decrease) in:				
Insurance contract liabilities		**293,733,428**	333,420,731	319,217,359
Policyholders' dividends payable		**(11,616,320)**	8,777,919	34,400,436
Premium deposit fund		**(24,900,730)**	(10,432,815)	4,569,876
Insurance payables		**(8,501,576)**	3,299,549	(19,737,362)
Accounts payable and accrued expenses		**82,640**	29,540,814	(79,312,028)
Other liabilities		**18,008,316**	(309,229)	27,129,182
Net cash generated from operations		**385,098,497**	613,182,361	218,745,381
Income tax paid		**(27,560,387)**	(12,252,435)	(12,862,113)
Contributions to plan assets	22	**(12,000,000)**	(15,000,000)	(15,000,000)
Benefits paid	22	**(3,063,855)**	(7,243,901)	(3,203,568)
Interest paid		**(329,982)**	(1,644,385)	(13,185,165)
Net cash provided by operating activities		**342,144,273**	577,041,640	174,494,535

(Forward)

	Note	2021	2020	2019
		Years Ended December 31		
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Investment securities	6	**(₱2,203,229,311)**	(₱3,817,451,516)	(₱1,684,627,404)
Property and equipment	8	**(19,745,567)**	(5,825,337)	(20,009,183)
Other assets		**(10,368,088)**	(4,766,319)	(20,920,880)
Proceeds from sale/maturities of investment securities	6	**1,910,598,424**	2,661,251,739	1,706,679,648
Interest received		**302,531,154**	315,545,608	424,128,929
Dividends received		**34,156,078**	27,559,748	24,451,216
Net cash provided by (used in) investing activities		**13,942,690**	(823,686,077)	429,702,326
CASH FLOWS FROM FINANCING ACTIVITIES				
Loan payments	13	**(249,750,840)**	(983,661,637)	(4,202,823,099)
Loan availments	13	**231,276,265**	977,531,670	3,883,765,938
Cash dividends paid	13	**(53,559)**	(49,606)	(27,661,338)
Net cash used in financing activities		**(18,528,134)**	(6,179,573)	(346,718,499)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**337,558,829**	(252,824,010)	257,478,362
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**972,303,861**	1,225,127,871	967,649,509
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**₱1,309,862,690**	₱972,303,861	₱1,225,127,871

See accompanying Notes to Consolidated Financial Statements.

BENEFICIAL LIFE INSURANCE COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Beneficial Life Insurance Company, Inc. (the Parent Company) was incorporated and registered with the Philippines Securities and Exchange Commission (SEC) on March 16, 1960 to engage and carry on the business of life insurance. The Parent Company extended its corporate life for another 50 years commencing on March 16, 2010. However, as prescribed by the Revised Corporation Code of the Philippines which became effective on February 23, 2019, the Group shall have perpetual existence. Also, the Parent Company is licensed to engage in the reinsurance business. The Parent Company's Certificate of Authority issued by the Insurance Commission (IC) is valid until December 31, 2024.

The Parent Company is 81%-owned by FMF Development Corporation (FMF or Ultimate Parent Company), a company incorporated in the Philippines engaged primarily to own, invest or manage properties such as buildings or other structures and shares of stock and other types of securities.

The registered office address of the Parent Company is Beneficial Life Building, 166 Salcedo Street, Legaspi Village, Makati City.

Composition of the Group

The consolidated financial statements include the accounts of the Parent Company and its wholly-owned subsidiaries (collectively referred to as the Group), as follows:

Name of Subsidiaries	Country of Incorporation	Nature of Business
Beneficial Financial Advisors, Inc. (BFAI)	Philippines	Consultancy and leasing
Solana Investment Holdings Corporation (SIHC)	British Virgin Islands	Investment

On October 21, 2021, the Board of Directors (BOD) and stockholders of BFAI approved a resolution for the cessation of its business operations effective December 15, 2021, and shorten the Company's term of existence until June 30, 2023. Accordingly, BFAI changed its basis of accounting in the preparation of its 2021 financial statements from the going concern basis to liquidation basis. As at report date, BFAI is still in the process of filing its amended Articles of Incorporation with the SEC for the shortening of its corporate term.

Also in 2021, the BOD and stockholders of SIHC approved its dissolution and authorized the transfer of its net assets amounting to ₱143.7 million to the Parent Company. The transfer of the assets was completed in December 2021.

As a result of the dissolution of SIHC, the Group's consolidated statements of financial position as at December 31, 2021 is composed of the assets, liabilities and equity of the Parent Company and BFAI while its consolidated statements of comprehensive income for the year ended December 31, 2021 is composed of the income and expenses of the Group.

Approval and Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2021 and 2020 and for the years ended December 31, 2021, 2020 and 2019 were approved and authorized for issuance by the BOD on April 7, 2022.

2. **Summary of Significant Accounting Policies**

The significant accounting policies used in the preparation of the consolidated financial statements are consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation and Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council (FRSC) and adopted by the SEC, including SEC pronouncements.

In accordance with PAS 1, *Presentation of Financial Statement*, an entity shall prepare consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or cease operations.

As discussed in Note 1 to consolidated financial statements, the BOD and stockholders of BFAI approved a resolution for the cessation of its business operations effective December 15, 2021, and shorten the Company's term of existence until June 30, 2023. Accordingly, BFAI changed its basis of accounting in the preparation of its 2021 financial statements from the going concern basis to liquidation basis. Under the liquidation basis of accounting, assets are stated at estimated net realizable values and liabilities are stated at estimated settlement amounts. The estimated values may be different from the proceeds that may be ultimately received or payment that may be made.

There is no difference in the amounts presented in the consolidated financial statements as a result of the change in the basis of preparation of BFAI's financial statements from going concern basis to liquidation basis of accounting. BFAI's assets and liabilities mainly pertains to cash in banks, accounts and other payables, and advance rentals and deposits. These are all measured at amortized costs which approximate its net realizable values or net settlement amounts. Additional disclosures have been included as applicable.

Measurement Bases

The consolidated financial statements are presented in Philippine Peso, the Group's functional currency. All values represent absolute amounts unless otherwise stated.

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and financial assets at fair value through other comprehensive income (FVOCI) which are carried at fair values, certain components of property and equipment which are carried at revalued amounts, and retirement liability which is carried at the present value of the defined benefit obligation less fair value of plan assets. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and consideration received for incurring a liability.

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 Group 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 consolidated 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 market for identical assets or liabilities.

Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

Further information about the assumptions made in measuring fair value is included in the following notes:

- Note 3: Significant Judgments, Accounting Estimates and Assumptions
- Note 6: Investment Securities
- Note 8: Property and Equipment
- Note 26: Risk Management Objectives and Policies

Adoption of Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS -

- Amendment to PFRS 16, *Leases - COVID-19-Related Rent Concessions beyond June 30, 2021* – In 2020, PFRS 16 was amended to provide practical expedient to lessees from applying the requirements on lease modifications for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for a change that is not a lease modification, e.g., as a variable lease payment. This amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted, and covers eligible rent concessions until June 30, 2021.

  Due to continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allows lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022. The 2021 amendment is mandatory for entities that elected to apply the previous amendment.

The adoption of the amended PFRS did not materially affect the consolidated financial statements of the Group. Additional disclosures were included in the consolidated financial statements, as applicable.

New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS, which are not yet effective as at December 31, 2021 and have not been applied in preparing the consolidated financial statements, are summarized below.

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

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments will replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendments include an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* or IFRIC 21, *Levies,* instead of the Conceptual Framework. The requirement will ensure that the liabilities recognized in a business combination will remain the same as those recognized applying the current requirements in PFRS 3. The amendments also clarified that an acquirer shall not recognize contingent assets acquired in a business combination. The amendments should be applied prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applied the amendments.

- Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Asset - Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as applicable. Accordingly, the comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS 2018 to 2020 Cycle:

  - Amendment to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity shall include when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendments. Earlier application is permitted.

  - Amendment to PFRS 16 - *Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted.

- Amendments to PAS 1 and PFRS Practice Statement 2 - *Making Materiality Judgement*, *Disclosure Initiative – Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.

- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2025 -

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. An amendment to the standard was issued to (i) reduce costs of transition by simplifying some requirements of the standard, (ii) make financial performance easier to explain, and (iii) ease transition by deferring the effectivity of the standard from 2021 to 2023 and by providing additional relief to reduce the effort required when applying PFRS 17 for the first time.

  In response to the challenges brought by the COVID-19 pandemic, the IC issued Circular Letter (CL) 2020-062, *Amendment of Section 1 of CL No. 2018-69, Deferral of IFRS 17 Implementation,* which provides a two year deferral on the implementation of the standard from the 2023 effectivity date. Therefore, all life and nonlife insurance companies in the Philippines shall adopt PFRS 17 for annual periods beginning on or after January 1, 2025.

Deferred effectivity -

- Amendments to PFRS 10, *Consolidated Financial Statements,* and PAS 28 - *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a conflicting provision under the two standards. It clarifies that a gain or loss shall be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group, except PFRS 17. Additional disclosures will be included in the consolidated financial statements, as applicable.

<u>Basis of Consolidation</u>

Subsidiaries. Subsidiaries are entities controlled by the Parent Company. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Parent Company obtains control, and continue to be consolidated until the date such control ceases.

The financial statements of the subsidiaries are prepared using the same reporting period of the Parent Company. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses, are eliminated in full.

A change in ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising from the loss of control is recognized in profit or loss. If the Group retains interest in the previous subsidiary, then such interest is measured at fair value at the date control is lost. Subsequently, it is accounted for as an equity-accounted investee or as financial assets at FVPL or FVOCI, depending on the level of influence retained.

Current and Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on liquidity. The current portion is presented in Note 27.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in its normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial instrument.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

"Day 1" Difference. Where the transaction 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 Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference.

Financial Assets
In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Classification and Measurement
The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at amortized cost, (b) financial assets at FVOCI, and (c) financial assets at FVPL. The classification of a financial instrument largely depends on the Group's business model and its contractual cash flow characteristics.

Financial Assets at Amortized Cost. Financial assets shall be measured at amortized cost if both of the following conditions are met:

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

The Group's cash and cash equivalents, short-term investments, insurance receivables, government securities assigned as investment deposit with the IC, private debt securities which are held primarily to collect contractual cash flows until maturity included under "Investment securities" account in consolidated statements of financial position, loans receivables and accrued income are classified under this category.

Debt Securities at FVOCI. Debt securities shall be measured at FVOCI if both of the following conditions are met:

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

After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt securities measured at FVOCI are recognized directly in profit or loss. Changes in the fair value of these securities are recognized in other comprehensive income and accumulated in equity. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

The Group's investments in private and government debt securities which are denominated in foreign currencies are classified under this category.

Equity Securities at FVOCI. On initial recognition, equity securities that are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI.

Dividends from equity securities held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment.

Changes in the fair value of these securities including those arising from foreign currency changes are recognized in other comprehensive income and presented in the equity section of the consolidated statements of financial position. The cumulative gains or losses will not be reclassified to profit or loss on disposal of the equity securities, instead, these will be transferred to retained earnings.

The Group's investments in quoted equity securities which are irrevocably designated as financial assets at FVOCI at initial recognition are included under this category.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt securities to be classified at amortized cost or at FVOCI, debt securities may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset.

The Group's investments in private debt securities held for trading and quoted equity securities are classified under this category.

Impairment

The Group recognizes an allowance for expected credit losses (ECL) for all debt securities not measured at FVPL. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

The Group's financial assets at amortized cost and debt securities at FVOCI are subject to ECL using general approach. Under this approach, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

Reclassification

The Group reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in other comprehensive income, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Derecognition
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 right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the financial 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 Group has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial Liabilities

Classification and Measurement
The Group classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost, and (b) financial liabilities at FVPL.

As at December 31, 2021 and 2020, the Group does not have financial liabilities measured at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity securities.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

The Group's insurance contract liabilities, policyholders' dividends payable, premium deposit fund, insurance payables, loans payable, accounts payable and accrued expenses (excluding statutory payables) and other liabilities are classified under this category.

Classification of Financial Instrument between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- 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.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When 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.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Group could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

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

<u>Insurance Contracts</u>

Product Classification

Insurance contracts are defined as those contracts under which the Group (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Group defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variables.

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

Insurance contracts are classified with and without Discretionary Participation Features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on the following:
  - performance of a specified pool of contracts or a specified type of contract;
  - realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
  - the profit or loss of the Group, fund or other entity that issues the contract.

Conventional Long-term Insurance Contracts

These contracts ensure events associated with human life (for example, death or survival) over a long duration. Premiums are recognized as revenue when they become payable by the contract holder. Benefits are recognized as expense when they are incurred or when the policies reach maturity.

A liability for contractual benefits that is expected to be incurred in the future is recognized for policies that are in-force as at the reporting date. The liability is determined as the expected future discounted value of the benefit payments that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefit expenses based on the valuation assumptions used. The liability is based on assumptions as to mortality, reserve method, and interest rate approved by the IC.

Reinsurance Contracts
The Parent Company cedes insurance risk in the normal course of business to reinsurers. Balances due from reinsurance companies for its share in benefits and claims of policyholders are recognized as "Due from reinsurers" in the consolidated statements of financial position. Amounts due to reinsurers representing their share in premiums are presented under "Insurance payables" account in the consolidated statements of financial position.

An impairment review is performed at each reporting date or more frequently when there are indications of impairment during the reporting year. Impairment occurs when there is objective evidence that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group 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 Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for life insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Estimating amounts payable is consistent with the provisions of the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Property and Equipment
Property and equipment, other than land, buildings and office condominium, are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and maintenance are charged against profit or loss during the financial period in which these were incurred.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

The Group's land, buildings and office condominium are stated at revalued amounts based on the valuation of an independent appraiser. Any increase in the value of property and equipment at revalued amounts is recognized under "Revaluation surplus on property and equipment" account in the equity section of the consolidated statements of financial position. Any decrease is first offset against an increase on earlier valuation in respect of the same class of property and is thereafter recognized as an expense. Annually, an amount from the revaluation surplus is transferred to retained earnings for the depreciation related to the revaluation surplus.

Upon the disposal of a revalued property, the relevant portion of the revaluation surplus realized in respect of previous valuation is released directly from the revaluation surplus to retained earnings.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the property and equipment as follows:

	Number of years
Building and office condominium	10 - 40
Transportation equipment	3 - 5
Office furniture and equipment	2 - 5

The assets' residual values, useful lives and depreciation method are reviewed periodically to ensure that the residual values, period and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further charge for depreciation is made in respect of those assets.

Impairment of Nonfinancial Assets

The nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount exceeds its estimated recoverable amounts, the asset is written down to its recoverable amount. The estimated recoverable amount of the asset is the higher of an asset's fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

Insurance Contract Liabilities

Legal Policy Reserves

Legal policy reserves are liabilities for contractual benefits that are expected to be incurred in the future related to policies that are in-force as at the reporting date. The liability is calculated as the sum of the present value of future benefits and expenses, less the present value of future net premiums arising from the policy discounted at the appropriate risk-free discount rate. The liability is determined using best estimate assumptions with regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

The Group has different assumptions for different products. However, liabilities for contractual benefits are computed to comply with statutory requirements, which require discount rates to be based on the schedule of spot rates published by IC and mortality and morbidity rates to be in accordance with the standard table of mortality. Reserves are computed per thousand of sum insured and depend on the issue age and policy duration.

Adjustments to the liabilities arising from changes in in-force policies are recorded in “Net change in legal policy reserves” account in profit or loss. Changes in liabilities arising from changes in discount rates are recorded in “Remeasurement gain (loss) on legal policy reserves” account in other comprehensive income.

Policy and Contract Claims

Policy and contract claims are liabilities for unpaid claims and benefits of policyholders as a result of death of the insured, surrenders and maturities. This also includes cost of claims incurred but not yet reported as at reporting date based on the Group’s experience and historical data.

Liability Adequacy Test

Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

Policyholders’ Dividends Payable

Policyholders’ dividends payable is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from participating business. These returns are subject to the discretion of the Group’s management and BOD and are within the constraints of the terms and conditions of the contract. The computation of the rate of dividends takes into consideration the differences of interests assumed in pricing and investments, differences in mortality rates assumed in pricing and reserves valuation and the increase in cash values between the current policy year and the previous policy year. Policyholders’ dividends payable for the year is computed per thousand of sum insured and depends on the issue age and policy duration.

Premium Deposit Fund

Premium deposit fund pertains to the premium deposits of the policyholders which earn interest at such rates as the Group declares but not less than the lowest interest rate prevailing on savings accounts of banks. The amount of premium deposits of the policyholders shall not exceed the future contractual premiums of the insurance contracts. If at any premium date, premiums remain unpaid, and provided that the fund balance is sufficient to pay such premiums in full, the premium due shall be paid from this fund.

Revenue Recognition

Premium Income. Gross recurring premiums from life insurance contracts are recognized as revenue when payable by the policyholder. For single premium business, revenue is recognized on the date from which the policy becomes effective. For regular premium contracts, revenues are recognized at the date when payments are due.

Estimates of premiums due as at the reporting date but not yet received are assessed based on the estimates from underwriting or past experience and are included in premiums earned.

Interest Income. For interest-bearing financial instruments classified as financial assets at FVPL, financial assets at FVOCI and financial assets at amortized cost, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Dividend Income. Dividend income is recognized when the Group’s right to receive the payment is established.

Rental Income. Rental income is recognized in profit or loss when earned.

Other Income. Other income includes policy issue fees, reversal of denied claims and other income that are recognized in profit or loss when earned.

Benefits, Claims and Expenses Recognition

Benefits and Claims. Benefits and claims consist of benefits and claims incurred during the period and changes in the valuation of legal policy reserves (including incurred but not reported losses) and reserve for policyholders’ dividends. Death claims and surrenders are recorded on the basis of notifications received. Maturities are recorded when due.

General and Administrative Expenses. General and administrative expenses constitute costs of administering the business. These are recognized as expense when incurred.

Commission and Other Direct Expenses. Commissions and other direct expenses are recognized when the insurance contracts are entered and the premiums are recognized.

Insurance Taxes. Insurance taxes pertain to premium taxes and documentary stamp taxes on life insurance policies which are expensed as incurred.

Finance Costs and Charges. Finance costs and charges consist mainly of bank charges and interest expenses incurred by the Group. Interest expense is recognized in profit or loss as it accrues and is calculated using the effective interest method. Accrued interest is credited to the liability account every policy anniversary date.

Employee Benefits

Short-term Benefits. The Group provides short-term benefits to its employees in the form of basic pay, 13th month pay, bonuses, employer's share on government contribution and other short-term benefits. Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. The Group has a funded, noncontributory defined benefit plan covering all qualified employees. The retirement benefits cost is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Group recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements and net interest expense or income in profit or loss.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Group recognizes restructuring-related costs.

Net interest on the net retirement liability or asset is the change during the period in the net retirement liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net retirement liability or asset.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group nor can they be paid directly to the Group. Fair value of plan assets is based on market price information.

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

The net defined benefit asset or liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets on which the liabilities are to be settled directly. The present value of the defined benefit liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

Income Taxes

Final Tax. Final taxes are recognized for taxes paid on certain income payments. These are not creditable to income tax due on income subject to regular corporate income tax. The applicable tax rates differ depending on the particular income subject to final tax.

Current Tax. Current tax is the expected tax payable on the taxable income for the year, using tax rate and tax laws enacted or substantively enacted at the reporting date.

Deferred Tax. Deferred tax is provided 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. Deferred tax assets are recognized for all deductible temporary differences and carry forward benefits of the net operating loss carryover (NOLCO) and excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward benefits of excess MCIT over RCIT 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 profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) in effect at the reporting date.

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

Equity

Capital Stock. Capital stock is measured at par value for all shares issued.

Additional Paid-in Capital (APIC). When the Parent Company issues shares in excess of par, the excess is recognized as APIC. Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC. Capital stock also includes stock dividends to be issued.

Retained Earnings. Retained earnings represent the cumulative balance of net income, net of any dividend declaration and prior period adjustments. Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders while appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Other Comprehensive Income. Other comprehensive income comprises items of income and expense (including items previously presented under equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income includes revaluation reserves on investment securities, remeasurement gain or loss on legal policy reserves, remeasurement gain or loss on net retirement liability and revaluation surplus on property and equipment. Other comprehensive income items that will be reclassified subsequently to profit or loss are presented separately from those items that will not be reclassified subsequently.

Leases

A contract is, or contains, a lease when it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the lessee has both of the following:

- The right to obtain substantially the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

If the Group has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

At the commencement date, the Group recognizes ROU asset and a lease liability for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

The Group as a Lessor. Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Operating lease payments are recognized as revenue in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income.

The Group as a Lessee. At the commencement date, the Group recognizes ROU assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

Foreign Currency Transactions

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing rate of exchange at the end of the reporting year. Foreign exchange differences are credited or charged directly to profit or loss.

Related Party Transactions

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

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made 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 assessment 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.

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

Events After the Reporting Date
Post year-end events that provide additional information about the Group's consolidated financial position at the end of reporting year (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements when material.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, accounting estimates and assumptions that affect the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements. These are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Identifying the Product Classification. The Group has determined that the policies it issues have significant insurance risk and therefore meets the definition of an insurance contract and are accounted for as such. Insurance contracts are those contracts when the Group has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts also transfer financial risk.

Classifying the Financial Instruments. Classification of financial assets depends on the results of the business model test and "sole payment of principal and interest" (SPPI) test performed by the Group. The Group exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives.

Defining Default and Credit-Impaired Financial Assets. The Group defines a financial instrument as in default, which is fully aligned with the definition of credit- impaired, when it meets one or more of the following criteria:

a. Quantitative Criteria - the borrower is more than 1 year past due on its contractual payments, which is consistent with the Group's definition of default.

b. Qualitative Criteria - The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

   - The borrower is experiencing financial difficulty or is insolvent;
   - The borrower is in breach of financial covenants;
   - Concessions have been granted by the Group, for economic or contractual reasons relating to the borrower's financial difficulty; or
   - It is probable that the borrower will enter bankruptcy or other financial reorganization.

The foregoing criteria have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to the determination of ECL.

Grouping of the Financial Assets for Measurement of ECL on a Collective Basis. For ECL provisions that are assessed on a collective basis, grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. For loans receivables, debtors are grouped based on the type of loan and debtors' geographical location.

Determining the Lease Commitments - Group as a Lessee. The Group has lease agreements for its branches and regional offices. The Group has determined that it obtains substantially all of the economic benefits from use of the identified assets and the right to direct the use of such assets. Moreover, the Group assessed that these lease agreements qualify as leases of low value assets or short-term leases.

Rental expense arising from leases of low value assets and short-term leases amounted to ₱9.0 million, ₱8.7 million and ₱10.5 million in 2021, 2020 and 2019, respectively (see Note 24).

Determining the Lease Commitments - Group as a Lessor. The Group has lease agreements with third parties. The Group has determined that it retains all the risks and rewards of ownership over the leased asset. Accordingly, the agreements are accounted for as operating leases.

Rental income amounted to ₱2.4 million, ₱3.5 million and ₱4.6 million in 2021, 2020 and 2019, respectively (see Note 24).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Determining the Fair Value of Financial Instruments. The fair values of investments that are actively traded in organized financial markets are determined by reference to quoted market prices at the close of business on the reporting date.

In accordance with the amendments to PFRS 7, *Financial Instruments: Disclosures*, disclosures about the level in the fair value hierarchy are required in which the fair value measurements are categorized for assets and liabilities measured in the consolidated statements of financial position. The Group uses judgment in assessing the significance of a particular input to the fair value measurements in its entirety, considering factors specific to the asset or liability.

Estimating the Legal Policy Reserves. Reserves are set up as requirement pursuant to the provision and guidelines set by the IC, which should not be less than the reserves required. These are computed using assumptions that are based on the standard mortality and morbidity tables, interest rates, lapse and/or persistency, expenses, non-guaranteed benefits and margin for adverse deviation as required by the IC.

The carrying amount of legal policy reserves amounted to ₱3,432.1 million and ₱3,740.9 million as at December 31, 2021 and 2020, respectively (see Note 9).

Estimating the Claims Incurred but not Reported. Provision is made for the cost of claims incurred but not yet reported as at reporting date based on the Group's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in consolidated statements of comprehensive income of subsequent years.

The carrying amount of claims incurred but not reported included under policy and contract claims amounted to ₱538.9 million and ₱251.5 million as at December 31, 2021 and 2020, respectively (see Note 9).

Estimating the Allowance for ECL of Financial Assets at Amortized Cost. The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition, in which case, ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors: (a) actual or expected external and internal credit rating downgrade; (b) existing or forecasted adverse changes in business, financial or economic conditions; and (c) actual or expected significant adverse changes in the operating results of the borrower.

The carrying amounts and allowance for ECL of the Group's financial assets at amortized cost are as follows:

		2021		2020	
	Note	**Carrying Amount**	**Allowance for ECL**	Carrying Amount	Allowance for ECL
Cash and cash equivalents	4	**₱1,309,862,690**	**₱–**	₱972,303,861	₱–
Short-term investments	4	**11,880,219**	**–**	62,796,981	–
Insurance receivables	5	**36,080,607**	**–**	33,538,391	–
Investment securities:	6				
Financial assets at FVOCI - debt securities		**2,273,386,423**	**21,458,988**	2,092,928,463	17,301,954
Financial assets at amortized cost		**2,032,634,640**	**1,926,830**	2,178,857,109	5,081,634
Loans receivables	7	**1,263,540,123**	**121,222,251**	1,390,963,245	112,355,838
Accrued income	6	**64,048,218**	**–**	72,813,698	–

Estimating the Useful Lives of Property and Equipment. The useful life of each of the Group's property and equipment is estimated based on the year over which the asset is expected to be available for use. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed at each financial yearend and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. However, it is possible that future financial performance could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded depreciation and decrease its carrying amounts.

There were no changes in the estimated useful lives of the Group's property and equipment at cost in 2021, 2020 and 2019. The carrying amount of property and equipment at cost amounted to ₱22.6 million and ₱24.2 million as at December 31, 2021 and 2020, respectively (see Note 8).

There were no changes in the estimated useful lives of the Group's property and equipment at revalued amounts in 2021, 2020 and 2019. The carrying amount of property and equipment at revalued amounts amounted to ₱649.3 million and ₱647.7 million as at December 31, 2021 and 2020, respectively (see Note 8).

Determining the Revalued Amount of Property and Equipment. The Group carries certain property and equipment at revalued amounts. The appraised values of land, buildings and office condominium were arrived using the market data approach and cost approach.

With market data approach, the values of the properties are based on sales and listings of comparable properties registered in the vicinity. The technique of this approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator and adjustment of the differences between the subject property and those actual sales and listings regarded as comparable. The comparison was premised on the factors of location, characteristics of the lot, time element, quality and prospective use.

Cost approach is evidenced by the observed condition in comparison with new units of like kind tempered by consideration given to extent, character and utility of the property which is to be continued in its present use as part of a going concern but without specific relation to earnings.

The latest independent property valuation of land, building and office condominium was performed on February 3, 2020. The appraisal resulted to an increase in revaluation surplus, net of deferred tax, amounting to ₱184.2 million. The carrying amount of property and equipment at revalued amounts amounted to ₱649.3 million and ₱647.7 million as at December 31, 2021 and 2020, respectively (see Note 8). Management believes that there are no significant differences between the fair value as at December 31, 2021 and 2020 and at valuation date.

Assessing the Impairment of Nonfinancial Assets. The Group assesses impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

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

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds it recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Determining such amount requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets.

In 2021, the Group recognized impairment loss on other assets amounting to ₱3.9 million. No impairment loss was recognized in 2020 and 2019. The carrying amounts of nonfinancial assets are as follows:

Asset Type	Note	**2021**	2020
Property and equipment:	8		
At revalued amounts		**₱649,250,307**	₱647,715,036
At cost		**22,606,953**	24,239,772
Other assets		**95,636,691**	89,146,809

Determining the Retirement Liability. The determination of the obligation and cost of retirement benefits is dependent on the assumptions used by the actuary in calculating such amounts. These assumptions are described in Note 22 to the consolidated financial statements and include, among others, discount rate and salary increase rate. Actual results that differ from the Group's assumptions are accumulated and recognized in other comprehensive income, therefore, generally affect the recognized expense and recorded obligation.

The net retirement liability amounted to ₱152.1 million and ₱139.0 million as at December 31, 2021 and 2020, respectively (see Note 22).

Assessing the Realizability of Deferred Tax Assets. The Group's assessment of the recognition of deferred tax assets on deductible temporary differences is based on the Group's past results and future expectations on revenue and expenses. The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized.

The Group's recognized deferred tax assets amounted to ₱95.0 million and ₱128.6 million as at December 31, 2021 and 2020, respectively (see Note 23).

The Group's unrecognized deferred tax assets amounted to ₱0.2 million as at December 31, 2021 (see Note 23). Management assessed that it is not probable that there will be sufficient future taxable profit against which these deferred tax assets can be utilized as a result of BFAI's on-going liquidation.

4. Cash, Cash Equivalents and Short-term Investments

Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash on hand	**₱53,000**	₱53,000
Cash in banks	**1,122,603,254**	794,813,873
Cash equivalents	**187,206,436**	177,436,988
	₱1,309,862,690	₱972,303,861

Cash and cash equivalents include cash in banks and short-term deposits which earn interest at the prevailing bank deposit rates. Cash equivalents are short-term deposits made for varying periods of up to three months from date of maturity, depending on the immediate cash requirements.

Short-term Investments

Short-term investments amounted to ₱11.9 million and ₱62.8 million as at December 31, 2021 and 2020, respectively. Short-term investments are short-term placements with maturities of more than three months but less than one year from date of acquisition. The effective annual interest rates of these investments range between 0.25% to 3.00% and 0.875% to 2.75% in 2021 and 2020, respectively.

Interest Income

Interest income recognized in the consolidated statements of comprehensive income are as follows:

	Note	**2021**	2020	2019
Loans receivables	7	**₱85,115,404**	₱108,630,387	₱205,197,740
Investment securities:	6			
Financial assets at amortized cost		**94,565,220**	103,024,123	88,411,448
Financial assets at FVOCI		**69,242,209**	70,796,285	82,292,112
Financial assets at FVPL		**40,148,511**	32,065,701	22,495,845
Cash and cash equivalents		**4,745,277**	11,541,080	12,158,508
Short-term investments		**1,547,837**	1,151,901	21,144,815
		₱295,364,458	₱327,209,477	₱431,700,468

5. Insurance Receivables

This account consists of:

	2021	2020
Premiums due and uncollected	**₱21,809,929**	₱16,042,360
Due from reinsurers	**14,270,678**	17,496,031
	₱36,080,607	₱33,538,391

Premiums due and uncollected pertain to uncollected premiums on written policies which are collectible within the Group's 30-day grace period.

Due from reinsurers pertain to claims recoverable from reinsurers. These receivables are due and demandable. Reinsurer's share in net benefits and claims amounted to ₱25.0 million, ₱34.6 million and ₱15.0 million in 2021, 2020 and 2019, respectively (see Note 19).

6. Investment Securities

Movements of this account are as follows:

	2021			
	Financial Assets			
	At FVPL	**At FVOCI**	**At Amortized Cost**	**Total**
Balance at beginning of year	**₱715,849,126**	**₱2,787,349,035**	**₱2,178,857,109**	**₱5,682,055,270**
Additions	**514,579,074**	**1,153,617,494**	**535,032,743**	**2,203,229,311**
Maturities and disposals	**(164,812,699)**	**(1,064,738,310)**	**(681,047,415)**	**(1,910,598,424)**
Fair value changes	**5,075,212**	**(45,589,795)**	**–**	**(40,514,583)**
Foreign exchange changes	**27,600,361**	**59,253,453**	**–**	**86,853,814**
Amortization	**(506,137)**	**4,591,922**	**(3,362,601)**	**723,184**
Reversal of impairment loss	**–**	**–**	**3,154,804**	**3,154,804**
Balance at end of year	**₱1,097,784,937**	**₱2,894,483,799**	**₱2,032,634,640**	**₱6,024,903,376**

	2020			
	Financial Assets			
	At FVPL	At FVOCI	At Amortized Cost	Total
Balance at beginning of year	₱478,582,793	₱2,402,350,510	₱1,697,414,811	₱4,578,348,114
Additions	709,545,100	1,210,973,291	1,896,933,125	3,817,451,516
Maturities and disposals	(459,335,857)	(789,490,775)	(1,412,425,107)	(2,661,251,739)
Fair value changes	13,762,986	72,413,370	–	86,176,356
Foreign exchange changes	(26,384,249)	(96,456,967)	–	(122,841,216)
Amortization	(321,647)	(12,440,394)	44,940	(12,717,101)
Provision for impairment loss	–	–	(3,110,660)	(3,110,660)
Balance at end of year	₱715,849,126	₱2,787,349,035	₱2,178,857,109	₱5,682,055,270

<u>Financial Assets at FVPL</u>

This account consists of:

	2021	2020
Private debt securities - foreign	**₱729,635,080**	₱715,849,126
Equity securities	**368,149,857**	–
	₱1,097,784,937	₱715,849,126

Private debt securities earn annual interest of 1.44% to 9.00% and 2.12% to 8.13% in 2021 and 2020, respectively. Interest income earned on these financial assets amounted to ₱40.1 million, ₱32.1 million and ₱22.5 million in 2021, 2020 and 2019, respectively, net of amortization of premium or discount amounting to ₱0.5 million, ₱0.3 million and ₱0.4 million in 2021, 2020 and 2019, respectively (see Note 4).

Equity securities pertain to preferred shares which are listed in the Philippine Stock Exchange Index (PSEi). Dividend income earned on these financial assets at FVPL amounted to ₱6.5 million, ₱4.5 million and ₱10.7 million in 2021, 2020 and 2019, respectively.

Financial Assets at FVOCI

This account consists of:

	2021	2020
Debt securities:		
Government debt securities - foreign	**₱1,390,789,643**	₱1,155,056,170
Private debt securities - foreign	**882,596,780**	937,872,293
	2,273,386,423	2,092,928,463
Equity securities - local and foreign	**621,097,376**	694,420,572
	₱2,894,483,799	₱2,787,349,035

Private and government debt securities earn annual interest of 1.05% to 8.38% in 2021 and 2020. Interest income earned on these financial assets amounted to ₱69.2 million, ₱70.8 million and ₱82.3 million in 2021, 2020 and 2019, respectively, net of amortization of premium or discount amounting to ₱4.6 million, ₱12.4 million and ₱16.0 million in 2021, 2020 and 2019, respectively (see Note 4).

Equity securities pertain to investments in shares listed in the PSEi and other foreign stock exchange markets. Dividend income earned on these financial assets at FVOCI amounted to ₱26.8 million, ₱23.6 million and ₱9.9 million in 2021, 2020 and 2019, respectively.

Movements of revaluation reserves on investment securities are as follows:

	December 31, 2021		
	Fair Value Change	**12-month ECL**	**Total**
Balance at beginning of year	**(₱65,033,263)**	**₱17,301,954**	**(₱47,731,309)**
Change in revaluation reserves:			
Fair value loss	**(45,589,795)**	**–**	**(45,589,795)**
Foreign exchange changes	**42,949,989**	**–**	**42,949,989**
Transfer to retained earnings	**(35,347,300)**	**–**	**(35,347,300)**
Transfers to profit or loss:			
Gain on sale	**(13,361,893)**	**–**	**(13,361,893)**
Impairment loss	**–**	**4,157,034**	**4,157,034**
	(51,348,999)	**4,157,034**	**(47,191,965)**
Balance at end of year	**(₱116,382,262)**	**₱21,458,988**	**(₱94,923,274)**

	December 31, 2020		
	Fair Value Change	12-month ECL	Total
Balance at beginning of year	(₱133,983,134)	₱9,427,403	(₱124,555,731)
Change in revaluation reserves:			
Fair value gain	72,413,370	–	72,413,370
Transfer to retained earnings	10,511,561	–	10,511,561
Foreign exchange changes	(6,617,772)	–	(6,617,772)
Transfers to profit or loss:			
Gain on sale	(7,357,288)	–	(7,357,288)
Impairment loss	–	7,874,551	7,874,551
	68,949,871	7,874,551	76,824,422
Balance at end of year	(₱65,033,263)	₱17,301,954	(₱47,731,309)

	December 31, 2019		
	Fair Value Change	12-month ECL	Total
Balance at beginning of year	(₱355,815,170)	₱19,029,416	(₱336,785,754)
Change in revaluation reserves:			
Fair value gain	236,114,956	–	236,114,956
Transfer to retained earnings	28,536,680	–	28,536,680
Foreign exchange changes	(24,201,131)	–	(24,201,131)
Transfers to profit or loss:			
Gain on sale	(18,618,469)	–	(18,618,469)
Impairment loss	–	(9,602,013)	(9,602,013)
	221,832,036	(9,602,013)	212,230,023
Balance at end of year	(₱133,983,134)	₱9,427,403	(₱124,555,731)

Movements of revaluation reserves on investment securities segregated for items that will be reclassified or not to profit or loss in subsequent periods follow:

	2021	2020	2019
Balance at beginning of year	**(₱47,731,309)**	(₱124,555,731)	(₱336,785,754)
Items that will be reclassified to profit or loss	**(44,925,470)**	84,685,053	269,667,728
Items that will not be reclassified into profit or loss	**(2,266,495)**	(7,860,631)	(57,437,705)
Balance at end of year	**(₱94,923,274)**	(₱47,731,309)	(₱124,555,731)

Financial Assets at Amortized Cost

This account consists of:

	2021	2020
Government debt securities - local	**₱1,193,035,321**	₱770,249,776
Private debt securities - local	**841,526,149**	1,413,688,967
	2,034,561,470	2,183,938,743
Allowance for impairment loss (12-month ECL)	**1,926,830**	5,081,634
	₱2,032,634,640	₱2,178,857,109

0.80% to 13.00% and 2.50% to 5.13% in 2021 and 2020, respectively. Interest income earned on these financial assets amounted to ₱94.6 million, ₱103.0 million and ₱88.4 million in 2021, 2020 and 2019, respectively, net of amortization of premium or discount amounting to ₱3.4 million, ₱44,940 and ₱0.5 million in 2021, 2020 and 2019, respectively (see Note 4).

Movements of allowance for impairment loss (12-month ECL) on financial assets at amortized cost in 2021 and 2020 are as follows:

	2021	2020
Balance at beginning of year	**₱5,081,634**	₱1,970,974
Provision for (reversal of) impairment loss	**(3,154,804)**	3,110,660
Balance at end of year	**₱1,926,830**	₱5,081,634

Impairment Losses

Impairment losses (reversal of impairment loss) on investment securities recognized in the consolidated statements of comprehensive income follow:

	2021	2020	2019
Financial assets at FVOCI	**₱4,157,034**	₱7,874,551	(₱9,602,013)
Financial assets at amortized cost	**(3,154,804)**	3,110,660	556,461
	₱1,002,230	₱10,985,211	(₱9,045,552)

Dividend Income

Dividend income recognized in the consolidated statements of comprehensive income follows:

	2021	2020	2019
Financial assets at FVOCI	**₱26,772,969**	₱23,578,145	₱9,869,978
Financial assets at FVPL	**6,507,509**	4,474,230	10,714,211
	₱33,280,478	₱28,052,375	₱20,584,189

Accrued Investment Income

Accrued investment income consists of:

	Note	**2021**	2020
Interest:			
hird parties		**₱62,745,571**	₱70,223,629
elated parties	17	**1,302,647**	1,714,469
Dividends		**–**	875,600
		₱64,048,218	₱72,813,698

Interest receivable pertains mainly to interest accrued from short-term investments, investment securities and loans receivables.

7. Loans Receivables

This account consists of:

	Note	2021	2020
Salary loans		**₱1,049,317,599**	₱1,135,054,047
Mortgage and collateral loans:			
Related party	17	**103,125,000**	140,625,000
Third parties		**5,683,454**	5,837,168
Policy loans		**97,506,998**	99,393,059
Due from related parties	17	**39,129,078**	49,028,578
Agents' balances		**36,880,308**	33,390,036
Notes receivables		**7,769,336**	8,843,668
Others		**45,350,601**	31,147,527
		1,384,762,374	1,503,319,083
Less allowance for impairment loss		**121,222,251**	112,355,838
		₱1,263,540,123	₱1,390,963,245

Movements in the allowance for impairment loss on loans receivables are as follows:

	2021		
	12-month ECL	**Lifetime ECL**	**Total**
Balance at beginning of year	**₱12,580,921**	**₱99,774,917**	**₱112,355,838**
Provision for impairment loss	**9,991,075**	**–**	**9,991,075**
Transfer from 12-month ECL to lifetime ECL	**(8,843,510)**	**8,843,510**	**–**
Write-off	**(1,124,662)**	**–**	**(1,124,662)**
Balance at end of year	**₱12,603,824**	**₱108,618,427**	**₱121,222,251**

	2020		
	12-month ECL	Lifetime ECL	Total
Balance at beginning of year	₱29,574,910	₱75,855,614	₱105,430,524
Provision for impairment loss	38,998,407	–	38,998,407
Transfer from 12-month ECL to lifetime ECL	(55,992,396)	55,992,396	–
Write-off	–	(32,073,093)	(32,073,093)
Balance at end of year	₱12,580,921	₱99,774,917	₱112,355,838

Composition of allowance for impairment loss are as follows:

	2021	2020
Salary loans	**₱112,561,299**	₱102,561,299
Agents' balances	**4,999,651**	4,999,651
Notes receivables	**2,860,226**	3,014,842
Others	**801,075**	1,780,046
	₱121,222,251	₱112,355,838

Salary loans consist of loans granted to the employees and teachers of Department of Education (DepEd). The Parent Company and DepEd entered into a Memorandum of Agreement (MOA) to provide interest-bearing loans to employees and teachers. The loans earn annual interest rate ranging from 7.50% to 9.66% with terms of one to five years. Salary loans also consist of interest-bearing loans granted to members and employees of Tarlac Public School Teachers Association and BPA Management Services, Inc. with interest rate of 12% per annum and term of one to five years.

Mortgage and collateral loans earn interest ranging from 5% to 9% per annum with a maximum maturity of ten (10) years.

Policy loans pertain to loans issued to policyholders. These loans are issued with the cash surrender value of the policyholder's insurance policy as collateral. Interest is charged at 10% per annum.

Agents' balances pertain to advances to agents that are liquidated or settled through regular deductions from commissions or outright payments. Interest rate is 18%per annum.

Notes receivables pertain to loans to employees that are paid through salary deduction. Interest rates range from 4% to 18% per annum.

Others pertain to receivables from life insurance pools and security fund.

Interest income on financial assets at amortized cost recognized in the consolidated statements of comprehensive follows (see Note 4):

	Note	**2021**	2020	2019
Salary loans		**₱68,775,908**	₱79,605,010	₱135,896,809
Policy loans		**6,014,197**	14,615,875	52,865,358
Mortgage and collateral loans:				
Related party	17	**5,944,777**	9,682,962	10,556,629
Third parties		**45,566**	46,216	15,191
Due from related parties	17	**709,589**	1,143,999	1,344,658
Notes receivables		**909,923**	801,385	1,096,437
Agents' balances		**332,539**	941,260	1,077,273
Others		**2,382,905**	1,793,680	2,345,385
		₱85,115,404	₱108,630,387	₱205,197,740

8. Property and Equipment

Movements of property and equipment at revalued amounts are as follows:

	2021			
	Land	**Building**	**Office Condominium**	**Total**
Revalued Amounts				
Balance at beginning of year	**₱535,237,999**	**₱376,268,089**	**₱49,709,031**	**₱961,215,119**
Additions	**–**	**8,546,813**	**–**	**8,546,813**
Balance at the end of year	**535,237,999**	**384,814,902**	**49,709,031**	**969,761,932**
Accumulated Depreciation				
Balance at beginning of year	**–**	**286,022,469**	**27,477,614**	**313,500,083**
Depreciation	**–**	**6,044,958**	**966,584**	**7,011,542**
Balance at end of year	**–**	**292,067,427**	**28,444,198**	**320,511,625**
Carrying Amount	**₱535,237,999**	**₱92,747,475**	**₱21,264,833**	**₱649,250,307**

	2020			
	Land	Building	Office Condominium	Total
Revalued Amounts				
Balance at beginning and end of year	₱535,237,999	₱376,268,089	₱49,709,031	₱961,215,119
Accumulated Depreciation				
Balance at beginning of year	–	280,149,089	26,511,030	306,660,119
Depreciation	–	5,873,380	966,584	6,839,964
Balance at end of year	–	286,022,469	27,477,614	313,500,083
Carrying Amount	₱535,237,999	₱90,245,620	₱22,231,417	₱647,715,036

The latest independent property valuation of land, building and office condominium was on February 3, 2020. The appraisal resulted to an increase in revaluation surplus, net of deferred tax, amounting to ₱184.2 million.

Management believes that there are no significant differences between the fair value as at December 31, 2021 and 2020 and at valuation date.

The Group’s property and equipment stated at appraised values are classified under Level 3 in the fair value hierarchy.

Description of the valuation techniques used and key inputs to valuation are as follows:

Location	Valuation techniques	Unobservable inputs used	Range (weighted average)
Legazpi Village, Barangay San Lorenzo, Makati City, Metropolitan Manila	Market approach for land and cost approach for improvements	Price per square meter for land; current materials and labor costs for improvements	₱625,053 to ₱800,000
Cebu Holdings Center, Cardinal Rosales Avenue, Cebu Business Park, Barangay Mabolo, Cebu City	Market approach for office condominium	Price per square meter	₱100,000
A. Pichon, Sr. Street, Barangay 39-D (Poblacion), Davao City	Market approach for land and cost approach for buildings and other land improvements	Price per square meter for land; current cost of labor and materials for building and other land improvements less accrued depreciation	₱59,392 to ₱68,300
Pendatun Avenue, Barangay Dadiangas North, General Santos City	Market approach for land and cost approach for buildings and other land improvements	Price per square meter for land; current cost of labor and materials for building and other land improvements less accrued depreciation	₱27,157 to ₱42,735
Mission Hills Boulevard and Monterey Street, Mission Hills Subdivision, Barangay San Roque, Antipolo City, Province of Rizal	Market approach for land	Price per square meter	₱17,391 to ₱19,220
St. Ignatius Street, San Jose Village, Barangay Cupang, Muntinlupa City, Metropolitan Manila	Market approach for land	Price per square meter	₱15,000 to ₱30,000

Details of the valuation techniques used in measuring fair values of the Group's property and equipment are as follows:

- Market data approach involves the comparison of the land to those that are more or less located within the vicinity of the appraised property and are subject of recent sales and offerings. Adjustments were made to arrive at the market value by considering the location, size, shape, utility, desirability and time element.

- Cost approach involves an analysis of the buildings by breaking them down into major components such as foundation, columns, beams, floorings, walls, and roofing, among others, by using workable units such as lineal meter, square meter, cubic meter or other appropriate basic unit. The unit costs for each component are developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality where the building is situated. Indirect costs such as contractor's profits, overhead, taxes and fees are also considered.

In relation to changes in unobservable inputs used, generally, increases or decreases in prices per square meter and current cost of labor and materials are directly proportional to the fair value measurement of property and equipment.

Had the land, building and office condominium and improvements been carried at cost less accumulated depreciation, the amounts would have been as follows:

	2021			
	Land	**Building**	**Office Condominium**	**Total**
Cost	**₱95,963,907**	**₱140,860,787**	**₱42,323,078**	**₱279,147,772**
Accumulated depreciation	**–**	**(74,082,341)**	**(24,462,140)**	**(98,544,481)**
Carrying amount	**₱95,963,907**	**₱66,778,446**	**₱17,860,938**	**₱180,603,291**

	2020			
	Land	Building	Office Condominium	Total
Cost	₱95,963,907	₱132,313,974	₱42,323,078	₱270,600,959
Accumulated depreciation	–	(70,949,014)	(24,363,449)	(95,312,463)
Carrying amount	₱95,963,907	₱61,364,960	₱17,959,629	₱175,288,496

Transfer of revaluation surplus on property and equipment, net of deferred tax, amounted to ₱2.8 million, ₱1.1 million and ₱4.7 million in 2021, 2020 and 2019, respectively.

Depreciation expense on property and equipment charged to operations amounted to ₱19.8 million, ₱22.7 million and ₱28.5 million in 2021, 2020 and 2019, respectively (see Note 20).

Movements of cumulative revaluation surplus recognized in equity are as follows:

	2021		
	Revaluation Surplus	**Deferred Tax** (see Note 23)	**Net**
Balance at beginning of year	**₱472,426,540**	**(₱141,727,963)**	**₱330,698,577**
Transfer to retained earnings	**(3,779,524)**	**944,881**	**(2,834,643)**
Effect of change in income tax rate	**–**	**23,621,328**	**23,621,328**
Balance at end of year	**₱468,647,016**	**(₱117,161,754)**	**₱351,485,262**

	2020		
	Revaluation Surplus	Deferred Tax (see Note 23)	Net
Balance at beginning of year	₱476,206,064	(₱142,861,820)	₱333,344,244
Transfer to retained earnings	(3,779,524)	1,133,857	(2,645,667)
Balance at end of year	₱472,426,540	(₱141,727,963)	₱330,698,577

Movements of property and equipment at cost are as follows:

	2021		
	Transportation Equipment	**Office Furniture and Equipment**	**Total**
Cost			
Balance at beginning of year	**₱66,211,003**	**₱93,230,459**	**₱159,441,462**
Additions	**6,143,645**	**5,055,109**	**11,198,754**
Balance at end of year	**72,354,648**	**98,285,568**	**170,640,216**
Accumulated Depreciation			
Balance at beginning of year	**55,367,786**	**79,833,904**	**135,201,690**
Depreciation	**5,341,343**	**7,490,230**	**12,831,573**
Balance at end of year	**60,709,129**	**87,324,134**	**148,033,263**
Carrying Amount	**₱11,645,519**	**₱10,961,434**	**₱22,606,953**

	2020		
	Transportation Equipment	Office Furniture and Equipment	Total
Cost			
Balance at beginning of year	₱64,082,118	₱89,534,007	₱153,616,125
Additions	2,128,885	3,696,452	5,825,337
Balance at end of year	66,211,003	93,230,459	159,441,462
Accumulated Depreciation			
Balance at beginning of year	48,306,476	71,050,474	119,356,950
Depreciation	7,061,310	8,783,430	15,844,740
Balance at end of year	55,367,786	79,833,904	135,201,690
Carrying Amount	₱10,843,217	₱13,396,555	₱24,239,772

There are no temporary idle property and equipment, nor are there property and equipment items pledged as security for loans payable and other obligations.

The Group has fully depreciated property and equipment that are still in use with cost amounting to ₱129.3 million and ₱94.7 million as at December 31, 2021 and 2020, respectively.

9. **Insurance Contract Liabilities**

This account consists of:

	2021	2020
Legal policy reserves for:		
Ordinary life policies	**₱2,585,701,710**	₱3,055,874,852
Group life policies	**815,165,038**	651,115,642
Accident and health riders	**31,190,853**	33,904,062
	3,432,057,601	3,740,894,556
Policy and contract claims:		
Claims payable	**1,223,787,846**	990,876,723
Maturities and surrenders payable	**225,649,780**	180,651,900
	1,449,437,626	1,171,528,623
	₱4,881,495,227	₱4,912,423,179

Claims payable include provision for claims incurred but not yet reported amounting to ₱538.9 million and ₱251.5 million as at December 31, 2021 and 2020, respectively.

Movements in legal policy reserves are as follows:

	Note	**2021**	2020
Balance at beginning of year		**₱3,740,894,556**	₱3,050,521,775
Recognized in:			
Profit or loss	19	**15,824,425**	208,594,487
Other comprehensive income		**(324,661,380)**	481,778,294
Balance at end of year		**₱3,432,057,601**	₱3,740,894,556

Movements of revaluation of legal policy reserves are as follows:

	2021	2020
Balance at beginning of year	**(₱201,662,671)**	₱280,115,623
Remeasurement gain (loss) due to change in discount rates	**324,661,380**	(481,778,294)
Balance at end of year	**₱122,998,709**	(₱201,662,671)

In compliance with IC CL No. 2017-30, the Group appropriated its retained earnings for negative legal policy reserves representing traditional life policies wherein the present value of gross premiums exceeds the present value of benefits and expenses. The appropriation for negative legal policy reserves amounted to ₱90.0 million and ₱42.9 million as at December 31, 2021 and 2020, respectively (see Note 16).

Movements in policy and contract claims are as follows:

	Note	**2021**	2020
Balance at beginning of year		**₱1,171,528,623**	₱1,046,702,379
Benefits and claims	19	**1,191,656,328**	783,857,598
Payments		**(913,747,325)**	(659,031,354)
Balance at end of year		**₱1,449,437,626**	₱1,171,528,623

10. Policyholders' Dividends Payable

Policyholders' dividends pertain to discretionary returns of policyholders through participation in the income of the Group.

Movements in policyholders' dividends payable are as follows:

	2021	2020
Balance at beginning of year	**₱142,208,734**	₱133,430,815
Acquisitions	**397,609**	16,347,765
Payments	**(12,013,929)**	(7,569,846)
Balance at end of year	**₱130,592,414**	₱142,208,734

11. Premium Deposit Fund

Premium deposit fund pertains to deposits of the policyholders that will be applied against future premiums. At the end of each year, interest is credited to this fund at rates as the Group declares but not less than the lowest interest rate prevailing on the savings accounts.

Premium deposit fund amounted to ₱311.1 million and ₱322.5 million as at December 31, 2021 and 2020, respectively. Interest expense amounted to ₱13.5 million, ₱25.8 million and ₱12.5 million in 2021, 2020 and 2019, respectively (see Note 21).

12. Insurance Payables

Insurance payables pertain to amounts due to reinsurers arising from premiums ceded under the reinsurance contracts payable within 90 days.

The movements in this account are as follows:

	Note	**2021**	2020
Balance at beginning of year		**₱94,278,156**	₱90,978,607
Premiums ceded	18	**39,897,729**	15,258,231
Payments		**(48,399,305)**	(11,958,682)
Balance at end of year		**₱85,776,580**	₱94,278,156

13. Loans Payable

Loans payable pertain to the credit line facility established by the Group with a foreign bank. The maximum loan amount under the agreement is SGD0.1 million and US$7.0 million and bears interest rate of 1.42% to 1.55% and 1.20% to 1.98% per annum in 2021 and 2020, respectively. The loans are payable on a monthly basis. The credit facility is used to advance the funds needed by the Group in the acquisition of foreign investments.

Interest expense amounted to ₱0.3 million, ₱1.6 million and ₱13.2 million in 2021, 2020 and 2019, respectively (see Note 21).

The changes in liabilities arising from financing activities as at December 31, 2021 and 2020 are as follow:

	2021		
	Loans Payable	**Dividends Payable** (see Note 15)	**Total**
Balance at beginning of year	**₱23,286,209**	**₱73,812,692**	**₱97,098,901**
Changes from financing cash flows:			
Loan availments	**231,276,265**	**–**	**231,276,265**
Loan payments	**(249,750,840)**	**–**	**(249,750,840)**
Dividends paid	**–**	**(53,559)**	**(53,559)**
Balance at end of year	**₱4,811,634**	**₱73,759,133**	**₱78,570,767**

	2020		
	Loans Payable	Dividends Payable (see Note 15)	Total
Balance at beginning of year	₱31,081,586	₱73,862,298	₱104,943,884
Changes from financing cash flows:			
Loan availments	977,531,670	–	977,531,670
Loan payments	(983,661,637)	–	(983,661,637)
Dividends paid	–	(49,606)	(49,606)
Noncash changes:			
Translation adjustment	(1,665,410)	–	(1,665,410)
Balance at end of year	₱23,286,209	₱73,812,692	₱97,098,901

14. Accounts Payable and Accrued Expenses

This account consists of:

	2021	2020
Accounts payable	**₱121,678,147**	₱94,899,435
Accrued expenses	**21,469,821**	44,415,588
Statutory payables	**18,138,724**	21,889,029
	₱161,286,692	₱161,204,052

Accounts payable pertain to unpaid service fees and Group's share in SSS, PhilHealth and HDMF benefits of the employees which are payable in 30 days.

Accrued expenses pertain to accruals for employee benefits, underwriting expenses, commissions, professional and legal fees, utilities, supplies, postage and shipping. These are generally payable within one year.

Statutory payables consist of withholding taxes, premium tax and documentary stamps tax that are payable on the next reporting period.

15. **Other Liabilities**

This account consists of:

	Note	**2021**	2020
Life insurance deposits		**₱128,543,575**	₱109,583,857
Dividends payable	13	**73,759,133**	73,812,692
Agents' fund		**28,190,403**	29,325,958
Others		**3,741,860**	3,557,707
		₱234,234,971	₱216,280,214

Life insurance deposits pertain to premiums received from policyholders with contracts that are still for processing and approval.

Dividends payable include amounts payable to the Parent Company's stockholders for their shares in the Parent Company's earnings. These are due and demandable.

Agents' fund consists of withheld commissions from agents for future liabilities that may be incurred by the agent to the Group.

Others include advance rentals and deposits amounting to ₱2.1 million as at December 31, 2021 and 2020 (see Note 24).

16. **Retained Earnings**

<u>Unappropriated</u>
Under the Philippine Corporation Code, stock corporations are generally prohibited from retaining surplus profits in excess of 100% of their paid up capital.

As at December 31, 2021, 2020 and 2019, the Parent Company's unappropriated retained earnings amounting to ₱1,865.2 million, ₱1,632.7 million and ₱1,480.5 million, respectively, is in excess of 100% of its paid-up capital. The retention of excess retained earnings is mainly due to the compliance requirements of the IC for minimum statutory net worth. Moreover, the Parent Company intends to use the excess retained earnings for future stock dividends and future business expansion projects.

<u>Appropriated</u>
On May 2, 2017, the IC issued CL No. 2017-30 requiring insurance companies to appropriate portion of retained earnings for negative legal policy reserves. These reserves pertain to traditional life policies wherein the present values of gross premiums exceed the present value of benefits and expenses.

Movements of retained earnings appropriated for negative reserves are as follows:

	2021	2020
Balance at beginning of year	**₱42,873,792**	₱80,623,116
Additional (reversal of) appropriation	**47,136,531**	(37,749,324)
Balance at end of year	**₱90,010,323**	₱42,873,792

Dividend Declaration

On March 21, 2019, the BOD approved the declaration of cash dividend to stockholders of ₱0.047 per share or a total of ₱29.5 million.

17. Related Party Transactions

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

		Transactions During the Year		Balance at End of Year			
	Note	**2021**	2020	**2021**	2020	Nature	Terms and Conditions
Due from related parties	7						
Entity under common control		**(₱10,000,000)**	₱–	**₱16,162,424**	₱26,162,424	Advances for working capital	2-5 years, 4%-7% interest, payable annually, unsecured, no impairment, payable in cash
Key management personnel		**100,500**	–	**22,966,654**	22,866,154	Advances to officers	Non-interest bearing, unsecured, no impairment, payable in cash
				₱39,129,078	₱49,028,578		
Mortgage loan receivable							
Entity under common control	7	**(₱37,500,000)**	(₱9,375,000)	**₱103,125,000**	₱140,625,000	Mortgage loan	7% interest, payable in 6 years, no impairment, payable in cash
Accrued investment income	6						
Entities under common control		**₱6,654,366**	₱10,826,961	**₱1,302,647**	₱1,714,469	Interest income	Due and demandable

Compensation of Key Management Personnel

The compensation of key management personnel are as follows:

	2021	2020	2019
Salaries and other employee benefits	**₱44,640,410**	₱41,589,485	₱44,849,948
Retirement expense	**9,061,966**	4,834,830	12,231,753
	₱53,702,376	₱46,424,315	₱57,081,701

18. Net Insurance Premiums

The gross premiums on insurance contracts consist of:

	2021	2020	2019
Direct:			
Group life insurance	**₱1,327,926,294**	₱1,195,596,581	₱1,158,794,760
Ordinary life insurance	**332,133,091**	306,054,917	350,240,278
Accident and health	**22,281,618**	21,855,290	30,680,922
	1,682,341,003	1,523,506,788	1,539,715,960
Assumed -			
Group life insurance	**78,871,816**	135,254,782	129,127,549
	₱1,761,212,819	₱1,658,761,570	₱1,668,843,509

The reinsurers' share of gross premiums on insurance contracts consists of:

	2021	2020	2019
Group life insurance	**₱39,391,990**	₱14,745,003	₱15,835,759
Ordinary life insurance	**399,573**	410,758	972,507
Accident and health	**106,166**	102,470	145,669
	₱39,897,729	₱15,258,231	₱16,953,935

19. Net Insurance Benefits and Claims

Net benefits and claims incurred on insurance contracts consist of:

	Note	**2021**	2020	2019
Claims		**₱998,733,622**	₱511,497,745	₱561,296,822
Maturities and surrenders		**208,634,769**	272,933,159	255,967,260
Experience refunds		**9,308,292**	34,074,689	20,609,332
Gross benefits and claims		**1,216,676,683**	818,505,593	837,873,414
Reinsurers' share	5	**(25,020,355)**	(34,647,995)	(14,960,437)
		₱1,191,656,328	₱783,857,598	₱822,912,977

Net change in legal policy reserves consists of:

	2021		
	Gross change in legal policy reserves	**Reinsurers' share of change in legal policy reserves**	**Net** (see Note 9)
Ordinary life insurance	**(₱148,750,744)**	**₱–**	**(₱148,750,744)**
Group life insurance	**164,510,916**	**(461,520)**	**164,049,396**
Accident and health	**525,773**	**–**	**525,773**
	₱16,285,945	**(₱461,520)**	**₱15,824,425**

	2020		
	Gross change in legal policy reserves	Reinsurers' share of change in legal policy reserves	Net (see Note 9)
Ordinary life insurance	₱47,424,384	₱–	₱47,424,384
Group life insurance	134,574,842	9,305,952	143,880,794
Accident and health	17,289,309	–	17,289,309
	₱199,288,535	₱9,305,952	₱208,594,487

	2019		
	Gross change in legal policy reserves	Reinsurers' share of change in legal policy reserves	Net
Ordinary life insurance	₱218,782,822	₱–	₱218,782,822
Group life insurance	72,427,484	(20,000,000)	52,427,484
Accident and health	26,518,260	–	26,518,260
	₱317,728,566	(₱20,000,000)	₱297,728,566

20. **General and Administrative Expenses**

This account consists of:

	Note	**2021**	2020	2019
Service fees		**₱203,170,030**	₱177,605,077	₱139,501,837
Personnel costs		**128,729,504**	140,397,225	138,373,601
Agency expenses	24	**62,671,134**	55,172,824	67,149,819
Professional fees		**20,715,108**	17,193,973	14,412,475
Depreciation	8	**19,843,115**	22,684,704	28,455,993
Outside services		**14,856,516**	12,302,424	10,148,000
Taxes and licenses		**10,847,147**	9,994,174	4,682,491
Entertainment, amusement and recreation		**8,690,995**	1,605,374	2,651,106
Utilities		**7,582,420**	6,881,987	7,370,214
Advertising and promotions		**6,945,011**	11,756,392	9,566,905
Supplies		**5,606,875**	6,090,610	6,977,212
Repairs and maintenance		**5,173,786**	6,400,703	7,759,323
Conferences and meetings		**4,304,869**	5,669,560	7,108,259
Insurance		**1,268,400**	1,390,318	1,465,953
Transportation and travel		**791,420**	2,033,500	5,002,512
Association dues and fees		**714,024**	1,259,830	983,080
Trainings and seminars		**124,893**	187,353	358,232
Others		**5,196,706**	9,781,278	13,811,023
		₱507,231,953	₱488,407,306	₱465,778,035

Personnel costs consist of:

	Note	**2021**	2020	2019
Salaries and wages		**₱90,864,454**	₱92,521,192	₱96,435,384
Retirement benefits cost	22	**15,545,062**	23,078,622	18,186,486
Other employee benefits		**22,319,988**	24,797,411	23,751,731
		₱128,729,504	₱140,397,225	₱138,373,601

Other employee benefits pertain to the Group's share in the statutory contributions of employees to various government agencies.

Agency expenses include rent expense, utilities and other expenses incurred in the operations of branches and agency offices. Rental expense amounted to ₱9.0 million, ₱8.7 million and ₱10.5 million in 2021, 2020 and 2019, respectively (see Note 24).

21. Commissions and Other Direct Expenses and Finance Costs and Charges

Commissions and Other Direct Expenses

This account consists of:

	2021	2020	2019
Commissions:			
Group	**₱106,815,727**	₱129,250,977	₱171,112,230
First year	**30,943,987**	34,776,173	52,128,531
Reinsurance	**9,691,614**	20,385,690	19,271,633
Renewal	**3,909,816**	4,353,673	6,024,030
Direct taxes	**30,072,125**	27,288,549	25,755,708
	₱181,433,269	₱216,055,062	₱274,292,132

Finance Costs and Charges

This account consists of:

	Note	**2021**	2020	2019
Interest expense on:				
Premium deposit fund	11	**₱13,517,202**	₱25,761,882	₱12,467,170
Loans payable	13	**329,982**	1,644,385	13,185,165
		13,847,184	27,406,267	25,652,335
Bank charges and other service fees		**8,914,444**	8,071,712	10,258,543
		₱22,761,628	₱35,477,979	₱35,910,878

Bank charges and other service fees represent warehousing fees on investments in treasury bonds and fees for other bank services.

22. **Retirement Liability**

The Group has a funded, non-contributory defined benefit plan providing retirement benefits for all of its qualified employees. The retirement benefits are based on years of service and compensation on the last year of employment. The latest actuarial report was made for the year ended December 31, 2021.

The components of retirement benefits cost recognized in the consolidated statements of comprehensive income are as follows:

	2021	2020	2019
Current service cost	**₱10,957,898**	₱20,449,706	₱11,006,622
Net interest expense	**4,587,164**	2,628,916	7,179,864
	₱15,545,062	₱23,078,622	₱18,186,486

The components of net retirement liability presented in the consolidated statements of financial position are as follows:

	2021	2020
Present value of defined benefit obligation	**₱262,044,645**	₱235,893,475
Fair value of plan assets	**(109,898,684)**	(96,896,904)
	₱152,145,961	₱138,996,571

Movements in the net retirement liability recognized in the consolidated statements of financial position are as follows:

	2021	2020
Balance at beginning of year	**₱138,996,571**	₱133,313,696
Current service cost	**10,957,898**	20,449,706
Net interest expense	**4,587,164**	2,628,916
Net remeasurement loss	**12,668,183**	4,848,154
Actual contributions	**(12,000,000)**	(15,000,000)
Benefits paid out of Group fund	**(3,063,855)**	(7,243,901)
Balance at end of year	**₱152,145,961**	₱138,996,571

Movements in the present value of defined benefit obligation are as follows:

	2021	2020
Balance at beginning of year	**₱235,893,475**	₱210,076,985
Current service cost	**10,957,898**	20,449,706
Interest cost	**8,244,322**	5,169,953
Remeasurement loss (gain) due to:		
Experience adjustments	**15,079,168**	(11,175,063)
Changes in financial assumptions	**(5,066,363)**	18,615,795
Benefits paid out of Group fund	**(3,063,855)**	(7,243,901)
Balance at end of year	**₱262,044,645**	₱235,893,475

Movements in the fair value of plan assets are as follows:

	2021	2020
Balance at beginning of year	**₱96,896,904**	₱76,763,289
Actual contributions	**12,000,000**	15,000,000
Interest income	**3,657,158**	2,541,037
Remeasurement gain (loss)	**(2,655,378)**	2,592,578
Balance at end of year	**₱109,898,684**	₱96,896,904

The Group expects to contribute ₱34.9 million to the plan assets in the next reporting period.

The distribution of the plan assets is as follows:

	2021	2020
Government securities	**88%**	66%
Corporate bonds, trust funds and mutual funds	**12%**	34%

The plan exposes the Group to the following risks:

- Salary Risk - any increase in the retirement plan participants' salary will increase the retirement
- Longetivity Risk - any increase in the plan participants' life expectancy will increase the retirement plan's liability
- Investment Risk - if the actual return on plan assets is below the discount rate used in calculating the present value of the retirement liability, a plan deficit will arise.
- Interest rate risk - a decrease in the bond interest rate will increase the present value of the retirement liability. However, partially counterbalanced by an increase in the return on the plan assets

The cumulative remeasurement loss on net retirement liability recognized in other comprehensive income is as follows:

	2021		
	Cumulative Remeasurement Loss	**Deferred Tax** (see Note 23)	**Net**
Balance at beginning of year	**₱17,090,744**	**(₱5,127,223)**	**₱11,963,521**
Remeasurement loss	**12,668,183**	**(3,167,046)**	**9,501,137**
Effect of change in income tax rate	**–**	**854,537**	**854,537**
Balance at end of year	**₱29,758,927**	**(₱7,439,732)**	**₱22,319,195**

	2020		
	Cumulative Remeasurement Loss	Deferred Tax (see Note 23)	Net
Balance at beginning of year	₱12,242,590	(₱3,672,777)	₱8,569,813
Remeasurement loss	4,848,154	(1,454,446)	3,393,708
Balance at end of year	₱17,090,744	(₱5,127,223)	₱11,963,521

The principal assumptions used in determining net retirement liability are as follows:

	2021	2020
Discount rate	**4.89%**	3.59%
Salary increase rate	**6.00%**	6.00%

The sensitivity analysis of the retirement liability as at December 31, 2021 to changes in assumptions follows:

	Change in variable	Present value of defined benefit obligation
Discount rate	5.89%	₱245,410,350
	3.89%	280,897,998
Salary increase rate	7.00%	281,207,769
	5.00%	244,381,097

The sensitivity analysis above has been determined based on a method that extrapolates the impact on retirement liability as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The maturity analysis of the undiscounted benefit payments follow:

Period	Amount
Less than 1 year	₱15,030,755
1 year to less than 5 years	211,753,711
5 years to less than 10 years	68,948,478
10 years to less than 15 years	94,902,705
15 years to less than 20 years	119,589,643
20 years and above	201,252,262

The average duration of the expected benefit payments at the end of the reporting period is 13.4 years.

23. **Income Tax**

The current income tax expense represents MCIT in 2021 and 2020.

The components of net deferred tax assets of the subsidiaries presented in the consolidated statements of financial position are as follows:

	2021	2020
Deferred tax assets:		
Allowance for impairment losses	**₱–**	₱340,076
Unearned rental income	**–**	233,873
	–	573,949
Deferred tax liability -		
Rent receivable	**–**	324,973
Net deferred tax assets	**₱–**	₱248,976

In 2021, the deferred tax asset amounting to ₱0.2 million which pertains to unearned rental income was not recognized as management assessed that it is not probable that there will be sufficient future taxable profit against which these deferred tax assets can be utilized as a result of BFAI's on-going liquidation.

The components of net deferred tax liabilities of the Parent Company are as follows:

	2021	2020
Deferred tax assets:		
Net retirement liability	**₱38,036,491**	₱41,698,971
Provision for impairment of loans and notes	**30,305,563**	33,366,675
Unrealized foreign exchange loss	**13,497,604**	51,366,516
NOLCO	**9,425,991**	–
Excess MCIT over RCIT	**3,753,982**	2,178,427
	95,019,631	128,610,589
Deferred tax liabilities:		
Revaluation surplus	**117,161,754**	141,727,963
Accrued interest using effective interest rate	**62,731,128**	74,902,125
Others	**2,415,371**	2,898,445
	182,308,253	219,528,533
Net deferred tax liabilities	**₱87,288,622**	₱90,917,944

The components of net deferred tax liabilities presented in other comprehensive income follow:

	Note	**2021**	2020
Revaluation surplus	8	**₱117,161,754**	₱141,727,963
Cumulative remeasurement loss on net retirement liability	22	**(7,439,732)**	(5,127,223)
		₱109,722,022	₱136,600,740

The presentation of net deferred tax assets (liabilities) is as follows:

	2021	2020
Through profit or loss	**(₱22,433,400)**	₱45,931,772
Through other comprehensive income	**109,722,022**	(136,600,740)
	₱87,288,622	(₱90,668,968)

The reconciliation between the income tax expense based on statutory tax rate and provision for income tax presented in the consolidated statements of comprehensive income is as follows:

	2021	2020	2019
Income tax expense at statutory tax rate	**₱72,136,448**	₱34,438,528	₱44,519,336
Effect of change in income tax rates	**7,100,361**	–	–
Change in unrecognized deferred tax asset	**155,915**	–	–
Tax effects of:			
Nondeductible expenses	**17,499,192**	4,654,647	5,638,905
Nontaxable income	**(13,947,264)**	(5,625,856)	(19,440,075)
Interest and dividend income subjected to lower tax rates	**(5,708,644)**	(12,248,250)	(12,272,673)
Income exempt from tax	**(5,373,498)**	(4,538,787)	(2,369,381)
Effect of consolidation	**1,003,406**	(1,557,840)	(2,602,927)
Others	**(24,905,400)**	(21,480,037)	25,589,147
Effective income tax	**₱47,960,516**	(₱6,357,595)	₱39,062,332

Others pertain to unrealized foreign exchange loss in 2020 realized in 2021 on long-term bonds.

Details of the Group's MCIT which can be claimed as tax credit against future income tax due are as follows:

Year Incurred	Beginning Balance	Incurred	Expired	Impact of change in tax rate	Ending Balance	Expiry Date
2021	₱–	₱2,744,141	₱–	₱–	₱2,744,141	2026
2020	2,178,427	–	–	(1,168,586)	1,009,841	2025
	₱2,178,427	₱2,744,141	₱–	(₱1,168,586)	₱3,753,982	

Under the Republic Act No. 11494, also known as "Bayanihan to Recover as One Act" and Revenue Regulation No. 25-2020, the Group is allowed to carry-over its operating losses incurred for taxable years 2020 and 2021 for the next five (5) years immediately following the year of such loss. Consequently, NOLCO incurred in 2021 amounting to ₱37.7 million can be claimed as deduction from future taxable profit until 2026.

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises ("CREATE") was approved and signed into law by the country's President. Under the CREATE, the RCIT of domestic corporations was revised from 30% to 25% or 20% depending on the amount of total assets and total amount of taxable income. In addition, the MCIT was changed from 2% to 1% of gross income for a period of three (3) years. The changes in the income tax rates retrospectively became effective beginning July 1, 2020.

The income tax rates used in preparing the financial statements as at and for the year ended December 31, 2021 are the transitional income tax rates of 25% and 1% for RCIT and MCIT, respectively.

The effect of the reduction in tax rates in 2020 was recognized as part of the 2021 income tax expense, as required by PAS 12, *Income Taxes*. Details of adjustments are as follows:

	Current	Deferred	Final	Total
Income tax expense	₱2,771,188	₱14,887,741	₱23,201,226	₱40,860,155
Effect of change in income tax rate	(1,510,270)	8,610,631	–	7,100,361
Adjusted income tax expense	₱1,260,918	₱23,498,372	₱23,201,226	₱47,960,516

24. **Commitments and Contingencies**

The Group as Lessor

The Group has various lease agreements with third parties. The lease periods vary from one (1) to ten (10) years. The lease agreements contain provisions including but not limited to escalation rate of 3% to 5% per year and early termination penalties. Rental income amounted to ₱2.4 million, ₱3.5 million and ₱4.6 million in 2021, 2020 and 2019, respectively.

Advance rentals and deposits amounted to ₱2.1 million as at December 31, 2021 and 2020 (see Note 15).

Future minimum rental receivables under non-cancellable operating leases are as follows:

	2021	2020
Within one year	**₱3,469,964**	₱3,225,092
After one year but not more than five years	**369,364**	6,639,697
More than five years	**–**	363,142
	₱3,839,328	₱10,227,931

The Group as Lessee

The Group has various lease agreements for its branches and agency offices. The lease periods vary from one (1) year to three (3) years with annual escalation of 5% to 10%. Rent expense included under "Agency fees" in "General and administrative expenses" account in the consolidated statements of comprehensive income amounted to ₱9.0 million, ₱8.7 million and ₱10.5 million in 2021, 2020 and 2019, respectively (see Note 20). The Company assessed that these lease agreements qualify as leases of low value assets or short-term leases.

Future minimum lease payments under non-cancellable operating leases as at December 31, 2021 and 2020 are as follows:

	2021	2020
Within one year	**₱9,155,634**	₱8,570,538
After one year but not more than five years	**4,088,490**	2,373,374
	₱13,244,124	₱10,943,912

25. Capital Management and Regulatory Framework

Capital Management Framework

It is the Parent Company's objective that it remains in compliance with all regulatory requirements that would ensure safety and stability of its financial position and that shareholder value is optimized.

The Parent Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the Risk-based Capital (RBC) Model.

The Parent Company assesses its capital adequacy annually by adopting an internal capital measurement framework that reflects the regulatory capital definitions and the Parent Company's view of its exposure to risk. In 2021 and 2020, the Parent Company has complied with all externally required capital. In any event that the capital adequacy assessment falls below the minimum standard set, it is the Parent Company's policy to make capital calls and/or liquidate certain investments with substantial reserves.

Regulatory Framework

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

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

Minimum Statutory Net Worth

On August 5, 2013, the President of the Philippines approved Republic Act No. 10607, also known as the "Amended Insurance Code" which provides for the new capitalization requirements of all existing insurance companies as follows:

Net Worth	Compliance Date
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

On January 13, 2015, the IC issued CL No. 2015-02-A which provides for the clarification of minimum capital requirements under Sections 194, 197, 200 and 289 of the New Insurance Code. The said circular superseded Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008. The minimum net worth requirements must remain unimpaired for the continuance of the license.

Pursuant to Section 202 of The Insurance Code, the amount of non-admitted assets of the Parent Company as at December 31, 2021 and 2020 are as follows:

	2021	2020
Cash and cash equivalents	**₱9,420,636**	₱3,074,795
Insurance receivables	**3,383,813**	3,577,725
Financial assets at FVPL	**297,701,308**	663,956,182
Financial assets at FVOCI	**507,584,691**	833,314,570
Financial assets at amortized cost	**–**	1,158,947
Loans receivables	**308,211,366**	226,608,002
Accrued income	**9,069,255**	19,513,562
Property and equipment	**17,204,385**	20,072,383
Investment in subsidiaries	**–**	95,370,937
Other assets	**85,950,237**	75,417,940
	₱1,238,525,691	₱1,942,065,043

As at December 31, 2021 and 2020, the Parent Company's net worth and its excess over the requirement are as follows:

	2021	2020
Total assets	**₱9,475,408,563**	₱8,965,427,664
Total liabilities	**6,046,582,583**	6,078,310,984
Equity	**3,428,825,980**	2,887,116,680
Less: Non-admitted assets	**1,238,525,691**	1,942,065,043
Net worth	**2,190,300,289**	945,051,637
Less: Net worth requirement	**900,000,000**	900,000,000
Excess over net worth requirement	**₱1,290,300,289**	₱45,051,637

As at December 31, 2021 and 2020, the Parent Company is compliant with the minimum statutory net worth requirements of the IC.

RBC Requirements

The Insurance Code provides that the Commissioner may require the adoption of the RBC approach and other internationally accepted forms of capital framework. Together with the insurance industry, the IC is currently in the process of adopting a new RBC approach that would be more tailored to the Philippine insurance industry. In 2016, the IC issued CL No. 2016-68 regarding the Amended RBC framework to be known as "RBC2 Framework" which was effective starting January 1, 2017.

CL No. 2016-68 provides for the RBC2 framework for the insurance industry (life and nonlife) which establishes the required amounts of capital to be maintained by the insurance companies in relation to their investment and insurance risks.

Every insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. The trend test has failed, in the event that all have occurred:

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

Failure to meet the RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The following table shows how the RBC ratio as at December 31, 2021 and 2020 was determined by the Parent Company based on its internal calculations:

	2021	2020
Tier 1	**₱2,981,632,178**	₱2,775,354,130
Tier 2	**452,164,777**	117,072,385
Deductions	**(222,159,059)**	(694,949,956)
Total available capital	**3,211,637,896**	2,197,476,559
RBC requirement	**1,275,251,724**	1,300,346,095
RBC ratio	**252%**	169%

The final amount of the RBC ratio can be determined only after the accounts of the Parent Company have been examined by IC specifically for the determination of admitted and non-admitted assets as defined under The Insurance Code.

26. Risk Management Objectives and Policies

Insurance Risk

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

Terms and Conditions

The Group principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for pre-determined amount.

Life insurance contracts offered by the Group mainly include whole life, term insurance and endowment products.

Whole life and term insurance are conventional products where lump sum benefits are payable on death.

Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the period is completed.

The risks associated with the life and accident and health products are considered as underwriting risk. Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing.

Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss due to policyholder death experience being different than expected.
- Morbidity risk - risk of loss due to policyholder health experience being different than expected.
- Expense risk - risk of loss arising from expense experience being different than expected.
- Investment return risk - risk of loss arising from actual returns being different than expected.
- Policyholder decision risk - risk of loss due to policyholder experiences (lapses and surrenders) being different than expected.

The Group generally limits its maximum underwriting exposure on life insurance of a single life to ₱2,000,000 of coverage by using yearly renewable term reinsurance. The Group is cognizant of the need to exercise good judgment in the selection and approval of both domestic and foreign companies participating in its reinsurance programs. While reinsurance arrangements do not relieve the Group from its direct obligations to its insured, an efficient and effective reinsurance program substantially limits the Group's exposure to potentially significant losses.

The table below sets out the Group's concentration of insurance risks based on sum insured:

	2021		2020	
	Number of Policies	**Amount of Coverage**	Number of Policies	Amount of Coverage
Whole life	**76,588**	**₱10,140,923,964**	79,705	₱10,508,760,603
Endowment	**6,526**	**809,238,571**	7,831	900,245,931
Term	**11,003**	**1,451,475,203**	7,213	982,084,761
Accident and health	**7,964**	**1,544,972,508**	6,937	1,013,371,716
Group life	**618**	**398,656,814,649**	481	216,847,730,409
	102,699	**₱412,603,424,895**	102,167	₱230,252,193,420

The table below sets out the concentration of legal policy reserves by type of contract (see Note 9):

	2021	2020
Ordinary life	**₱2,585,701,710**	₱3,055,874,852
Group life	**815,165,038**	651,115,642
Accident and health	**31,190,853**	33,904,062
	₱3,432,057,601	₱3,740,894,556

Key Assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions in use are based on past experience, current internal data and conditions and external market indices and benchmarks, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate at inception of the contract and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are subject to the provisions of The Insurance Code and guidelines set by the IC. For insurance contracts, the Group determines the assumptions in relation to future deaths, illness or injury and investment returns at inception of the contract.

Subsequently, new estimates are developed at each reporting date and liabilities are tested to determine whether such liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered to reflect the latest current estimates. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deteriorations in estimates have an impact.

The key assumptions to which the estimation and adequacy testing of liabilities are particularly sensitive are as follows:

Mortality and Morbidity Rates. Assumptions are based on standard industry and national mortality and morbidity tables, according to the type of contract written and which may be adjusted, where appropriate, to reflect the Group's own experiences. Assumptions are differentiated by sex, underwriting class and contract type.

For life insurance policies, increased mortality and morbidity rates would lead to a larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing profits for the shareholders.

Discount Rates. Life insurance liabilities are determined as the sum of the discounted value of the expected benefits, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. The weighted average rate of return is derived based on model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for shareholders.

Investment Return. The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long-term asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.

An increase in investment return would lead to an increase in profits for the shareholders.

Lapse and surrender rates. Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Group's experience and vary by product type, policy duration and sales trends.

An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

Expenses. Administrative expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.
A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for shareholders.

The assumptions that have the greatest effect on the consolidated statements of financial position and consolidated statements of comprehensive income are listed below.

	Mortality and Morbidity Rates		Discount Rates	
	2021	2020	**2021**	2020
Ordinary life	**2017 PICM, 1959 ADB, and 1952 Disability**	1980 CSO, 1959 ADB, and 1952 Disability	**2.0% to 5.3%**	1.6% to 4.6%
Group life	**Based on Experience**	Based on Experience	**Based on Experience**	Based on Experience

Sensitivity Analysis
The analysis below is performed for reasonably possible changes in key assumptions, with all other assumptions held constant, on liabilities, income before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities. To demonstrate the impact due to changes in assumptions, sensitivity analysis has been performed based on the prescribed rate by IC for margin for adverse deviation.

	2021		
Change in Assumptions	**Increase (Decrease) in Liabilities**	**Increase (Decrease) in Income Before Income Tax**	**Increase (Decrease) in Equity**
+10%	**(₱97,055,490)**	**₱97,055,490**	**₱61,740,196**
-10%	**130,319,593**	**(130,319,593)**	**(119,720,455)**

	2020		
Change in Assumptions	Increase (Decrease) in Liabilities	Increase (Decrease) in Income Before Income Tax	Increase (Decrease) in Equity
+10%	(₱58,892,920)	₱58,892,920	₱54,774,236
-10%	118,756,439	(118,756,439)	(150,836,204)

Financial Risk
The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. Taking risk is core to the insurance business, and the operational risks are inevitable consequence of being in business. The Group's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date financial information. The Group regularly reviews its risk management policies to reflect changes in markets, products and emerging best practices.

The BOD provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange, interest rate, equity price, credit, liquidity and use of derivative and non-derivative financial instruments, among others.

The BOD is responsible for the management of market, credit and liquidity risks. Their objective is to minimize adverse impacts on the Group's financial performance due to the unpredictability of financial markets. The Internal Audit is also responsible for the independent review of risk assessment measures and procedures and the control environment.

Financial Instruments

The following table sets forth the estimated fair values and carrying values of financial assets and liabilities recognized as at December 31, 2021 and 2020:

	2021		2020	
	Fair Value	**Carrying Amount**	Fair Value	Carrying Amount
Financial Assets				
Cash and cash equivalents	**₱1,309,809,690**	**₱1,309,809,690**	₱972,250,861	₱972,250,861
Short-term investments	**11,880,219**	**11,880,219**	62,796,981	62,796,981
Insurance receivables	**36,080,607**	**36,080,607**	33,538,391	33,538,391
Investment securities	**6,106,524,052**	**6,024,903,376**	5,808,021,916	5,682,055,270
Loans receivables	**1,317,610,250**	**1,263,540,123**	1,528,438,740	1,390,963,245
Accrued income	**64,048,218**	**64,048,218**	72,813,698	72,813,698
	₱8,845,953,036	**₱8,710,262,233**	₱8,477,860,587	₱8,214,418,446
Financial Liabilities				
Insurance contract liabilities	**₱4,881,495,227**	**₱4,881,495,227**	₱4,912,423,179	₱4,912,423,179
Policyholders' dividends payable	**130,592,414**	**130,592,414**	142,208,734	142,208,734
Premium deposit fund	**311,114,991**	**311,114,991**	322,498,519	322,498,519
Insurance payables	**85,776,580**	**85,776,580**	94,278,156	94,278,156
Loans payable	**4,811,634**	**4,811,634**	23,286,209	23,286,209
Accounts payable and accrued expenses*	**143,147,968**	**143,147,968**	139,315,023	139,315,023
Other liabilities	**234,234,971**	**234,234,971**	216,280,214	216,280,214
	₱5,791,173,785	**₱5,791,173,785**	₱5,850,290,034	₱5,850,290,034

**Excluding statutory payables amounting to ₱18.1 million and ₱21.9 million as at December 31, 2021 and 2020, respectively.*

Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, accrued income, insurance contract liabilities, policyholders' dividends payable, premium deposit fund, loans payable, insurance payables, accounts payable and accrued expenses and other liabilities, their carrying values approximate fair values at year end.

The fair value of financial assets at FVPL and financial assets at FVOCI that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the reporting date. For units in unit trust and shares in open ended investment companies, fair value is by reference to net asset value per unit provided by the counterparty. These financial assets are classified under level 1 of fair value hierarchy.

The fair value of the loans receivables is estimated using the discounted cash flow technique that makes use of risk-free interest rates. The estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk. The fair value of loans receivables is classified under level 2 of fair value hierarchy.

There were no transfers between fair value hierarchies in 2021 and 2020.

Credit Risk
Credit risk is the risk when a party to a financial instrument fails to discharge an obligation and cause the other party to incur a financial loss.

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

Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Group selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Group's reinsurance programs.

The Group is also guided by the rulings of the IC to ensure admissibility of its investment securities.

The Group sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long-term ratings.

Credit risks associated with fixed income investments are managed by the Group by monitoring exposure against pre-established limits set by the regulators and the BOD. Provisions for impaired assets are charged against the carrying value of the asset.

The Group performs credit analysis and review for both retail and corporate financial products to ensure consistency in the risk assessment process. The BOD also ensures that the credit policies and procedures are adequate and constantly evolving to meet the changing demands of the industry.

For debt securities and other bills, external ratings such as Standard & Poor's, Moody's and Fitch's ratings or their equivalent are used by the Group for managing credit risk exposure. Investments in these securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements.
With respect to credit risk arising from its financial assets, the table below shows the maximum exposure to credit risk of the following financial instruments in the consolidated statements of financial position before taking into consideration any credit enhancements:

	2021	2020
Cash in banks and cash equivalents	**₱1,309,809,690**	₱972,250,861
Short-term investments	**11,880,219**	62,796,981
Insurance receivables	**36,080,607**	33,538,391
Investment securities	**6,024,903,376**	5,682,055,270
Loans receivables	**1,263,540,123**	1,390,963,245
Accrued income	**64,048,218**	72,813,698
	₱8,710,262,233	₱8,214,418,446

The carrying amount of the financial assets represents the gross maximum exposure to credit risk at reporting date except for mortgage and collateral loans. The financial effect of collateral or credit enhancement amounted to ₱517.2 million and ₱519.1 million in 2021 and 2020, respectively. The Group holds cash surrender values of policyholder's insurance policy and Transfer Certificate of Title (TCT) for real properties as collaterals.

The Group has no significant concentration of credit risk on any single or group of counterparties.

The Group's financial assets are categorized based on its collection experience with the counterparties and classified based on the following credit rating:

a. High Grade - these are neither past due nor impaired with settlements obtained from counterparty following the terms of the contracts without much collection effort. The Group's cash in banks and cash equivalents, short-term investments and investment securities are classified under this category.

b. Standard Grade - these are also neither past due nor impaired but some reminder follow-ups are performed to obtain settlement from the counterparty. The Group's insurance receivables, loans receivables and accrued income are classified under this category.

The following table summarizes the impairment analysis of the Group's financial assets as at December 31, 2021 and 2020. It indicates whether the financial assets were subjected to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

	December 31, 2021			
	12-month ECL	**Lifetime ECL - not credit impaired**	**Lifetime ECL - credit impaired**	**Total**
Cash in banks and cash equivalents	**₱1,309,809,690**	**₱–**	**₱–**	**₱1,309,809,690**
Short-term investments	**11,880,219**	**–**	**–**	**11,880,219**
Insurance receivables	**36,080,607**	**–**	**–**	**36,080,607**
Investment securities	**6,024,903,376**	**–**	**–**	**6,024,903,376**
Loans receivables	**1,276,143,947**	**–**	**108,618,427**	**1,384,762,374**
Accrued income	**64,048,218**	**–**	**–**	**64,048,218**
	₱8,722,866,057	**₱–**	**₱108,618,427**	**₱8,831,484,484**

	December 31, 2020			
	12-month ECL	Lifetime ECL - not credit impaired	Lifetime ECL - credit impaired	Total
Cash in banks and cash equivalents	₱972,250,861	₱–	₱–	₱972,250,861
Short-term investments	62,796,981	–	–	62,796,981
Insurance receivables	33,538,391	–	–	33,538,391
Investment securities	5,682,055,270	–	–	5,682,055,270
Loans receivables	1,403,092,126	–	100,226,957	1,503,319,083
Accrued income	72,813,698	–	–	72,813,698
	₱8,226,547,327	₱–	₱100,226,957	₱8,326,774,284

Liquidity Risk Management

The Group's primary source of funds is cash provided by collection of premiums and net investment income. These funds are used primarily to pay policy benefits, dividends to policyholders, claims, commissions, operating expenses, taxes and licenses and shareholder dividends. Cash flows generated from operating activities are generally invested to support future payment requirements.

The Group maintains a conservative liquidity position that exceeds all the liabilities payable on demand. To strengthen its liquidity further, the Group actively manages and monitors its capital levels, asset levels, matching position, diversification and credit quality of its investments and cash forecasts and actual amounts against established targets.

Based on the Group's historical cash flows, management believes that the cash flow from operating activities will continue to provide sufficient liquidity for the Group to satisfy all future obligations. The table below summarizes the financial liabilities of the Group which are due within one year based on remaining contractual undiscounted cash flows as at December 31, 2021 and 2020:

	2021	2020
Insurance contract liabilities	**₱2,264,602,663**	₱1,822,644,265
Policyholders' dividends payable	**130,592,414**	142,208,734
Premium deposit fund	**311,114,991**	322,498,519
Insurance payables	**85,776,580**	94,278,156
Loans payable	**4,811,634**	23,286,209
Accounts payable and accrued expenses*	**143,147,968**	139,315,023
Other liabilities	**232,132,912**	214,178,155
	₱3,172,179,162	₱2,758,409,061

**Excluding statutory payables amounting to ₱18.1 million and ₱21.9 million as at December 31, 2021 and 2020, respectively.*

Market Risk

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

Increasing market fluctuations may result in significant impact on the Group's equity, cash flows and profit. Its operating activities as well as its investing and financing activities are affected by changes in foreign exchange rates, interest rates and equity price risks. Market risks arise from foreign currency-denominated financial instruments, investments in debt securities, as well as from equity securities.

The Group manages its market risk by monitoring its exposure to capital markets against established risk tolerance levels.

The Group also has specific policies that allow it to maintain its strong financial position by ensuring that sufficient liquid assets are available to cover its potential funding requirements. The Group invests in various types of assets with a view to matching them with its liabilities of various durations.

Foreign Currency Risk

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

The Group's principal transactions are carried out in Philippine Peso (PHP) and its exposure to foreign currency risk arise primarily with respect to the Group's investments in foreign currency-denominated debt and equity securities and dealings with foreign reinsurers in its settlement of obligations and receipt of any claim reimbursements, which are denominated in the following currencies:

- United States Dollar (USD)
- Singaporean Dollar (SGD)
- Euro (EUR)
- Australian Dollar (AUD)
- Hong Kong Dollar (HKD)
- Great Britain Pound (GBP)

The table below summarizes the Group's exposure to currency risk on foreign currency-denominated assets and liabilities and total PHP equivalents.

	2021						
	USD	SGD	EUR	AUD	HKD	GBP	Total (PHP)
Financial Assets							
Cash and cash equivalents	$3,183,784	SGD–	€8,996	AUD42,198	HKD85,811	£1,017	₱165,068,659
Accrued investment income	663,354	–	–	20,232	–	–	34,575,049
Investment securities	48,040,203	297,312	281,151	1,896,845	2,313,431	143,721	2,572,063,187
Loans and receivables	2,381	–	–	–	–	–	121,420
	$51,889,722	SGD297,312	€290,147	AUD1,959,275	HKD2,399,242	£144,738	₱2,771,828,315
Financial Liabilities							
Accounts payable and accrued expenses	$19,337	SGD –	€–	AUD –	HKD –	£–	₱986,174
Insurance contract liabilities	1,296,587	–	–	–	–	–	66,124,644
Loans payable	–	128,123	–	–	–	–	4,811,633
Premium deposit fund	1,931	–	–	–	–	–	98,458
Other current liabilities	5,592	–	–	–	–	–	285,199
	$1,323,447	SGD128,123	€–	AUD –	HKD –	£–	₱72,306,108

	2020						
	USD	SGD	EUR	AUD	HKD	GBP	Total (PHP)
Financial Assets							
Cash and cash equivalents	$1,273,947	SGD–	€2,276	AUD197,624	HKD22,520	£–	₱68,644,689
Accrued investment income	721,650	–	–	13,629	–	–	35,151,847
Investment securities	53,886,995	149,081	215,516	1,809,944	2,955,645	111,170	2,697,245,494
Loans and receivables	9,197	–	–	–	–	–	441,678
	$55,891,789	SGD149,081	€217,792	AUD2,021,197	HKD2,978,165	£111,170	₱2,801,483,708
Financial Liabilities							
Accounts payable and accrued expenses	$24,828	SGD –	€–	AUD –	HKD –	£–	₱1,049,704
Insurance contract liabilities	1,403,944	–	–	–	–	–	67,421,585
Loans payable	23,286,229	–	–	–	–	–	23,286,229
Premium deposit fund	1,725	–	–	–	–	–	82,857
Other current liabilities	5,592	–	–	–	–	–	268,556
	$24,722,318	SGD –	€–	AUD –	HKD –	£–	₱92,108,931

For purposes of restating the outstanding balances of the Group's foreign currency-denominated financial assets and liabilities as at December 31, 2021 and 2020, the following exchange rates were applied:

	2021	2020
USD	**₱51.00**	₱48.02
SGD	**37.55**	36.12
EUR	**57.51**	58.69
AUD	**36.81**	36.40
HKD	**6.51**	6.19
GBP	**68.53**	64.62

The following table demonstrates the sensitivity to reasonably possible change in foreign exchange rate, with all other variables held constant, of the Group's income before tax as at December 31, 2021 and 2020:

	2021			2020		
	Increase/ Decrease in Exchange Rate	**Effect on Income before Tax**	**Effect on Equity**	Increase/ Decrease in Exchange Rate	Effect on Income before Tax	Effect on Equity
USD	**3.64%**	**₱86,824,925**	**₱62,948,070**	-3.89%	(₱92,566,559)	(₱67,110,755)
	(3.64%)	**(86,824,925)**	**(62,948,070)**	3.89%	92,566,559	67,110,755
SGD	**4.31%**	**–**	**1,216,350**	-4.11%	–	(923,716)
	(4.31%)	**–**	**(1,216,350)**	4.11%	–	923,716
EUR	**6.42%**	**–**	**1,475,612**	-5.34%	–	(1,167,579)
	(6.42%)	**–**	**(1,475,612)**	5.34%	–	1,167,579
AUD	**5.38%**	**1,611,686**	**3,657,564**	-5.69%	(1,306,898)	(3,410,624)
	(5.38%)	**(1,611,686)**	**(3,657,564)**	5.69%	1,306,898	3,410,624
HKD	**3.53%**	**–**	**1,423,735**	-3.77%	–	(1,443,542)
	(3.53%)	**–**	**(1,423,735)**	3.77%	–	1,443,542
GBP	**5.09%**	**–**	**483,783**	5.09%	–	(960,905)
	(5.09%)	**–**	**(483,783)**	-5.09%	–	960,905

Interest Rate Risk

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

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The Group's market risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

A critical element of the Group's risk management process consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Group's net interest income and ensuring that the exposure in interest rate is kept within acceptable limits.

An efficient matching policy of assets and liabilities arising from insurance and investment contracts are established to keep potential losses within acceptable levels.

The following tables show the information relating to the Group's financial instruments that are exposed to fair value interest rate risk presented by maturity profile.

	2021			
	Up to 1 year	**1-3 years**	**3-5 years**	**Over 5 years**
Financial assets at FVOCI	**₱757,742,278**	**₱253,352,944**	**₱197,763,011**	**₱1,064,528,190**
Financial assets at FVPL	**–**	**17,586,495**	**61,429,060**	**650,619,523**

	2020			
	Up to 1 year	1-3 years	3-5 years	Over 5 years
Financial assets at FVOCI	₱486,108,607	₱217,195,515	₱261,672,131	₱1,127,952,234
Financial assets at FVPL	19,259,144	29,058,237	57,708,279	609,823,466

The following table below presents the impact on income before tax and equity due to a reasonable possible change in the interest rate for the year ended December 31, 2021 and 2020:

	2021		
	Change in Variable	**Impact on Income Before Tax**	**Impact on Equity**
USD	**5.3611%**	**₱7,029,285**	**₱166,391,684**
	(5.3611%)	**(7,029,285)**	**(166,391,684)**
AUD	**4.6667%**	**–**	**1,007,633**
	(4.6667%)	**–**	**(1,007,633)**

	2020		
	Change in Variable	Impact on Income Before Tax	Impact on Equity
USD	5.2072%	₱26,889,473	₱21,404,647
	-5.2072%	(26,889,473)	(21,404,647)
AUD	5.1250%	–	2,348,565
	-5.1250%	–	(2,348,565)
PHP	2.1164%	–	2,193,205
	-2.1164%	–	(2,193,205)

The impact on the Group's equity, caused by changes in the market value of financial assets, already excludes the impact on transactions affecting the consolidated statements of comprehensive income. The impact on the Group's income before tax is caused by changes in the market value of financial assets at FVPL.

In 2021 and 2020, the Group determined the reasonably possible change in interest rates using the percentages changes in weighted average yield rates of outstanding securities for the past five years.

Equity Price Risk
Equity price risk is the risk that fair value of future cash flows will fluctuate because of changes in market prices of individual stocks and the changes in the level of PSEi and other foreign stock exchange indices.

The Group's equity price risk exposure relates to equity shares classified as financial assets at FVPL and FVOCI.

The table below shows the equity impact of reasonably possible change of PSEi and other foreign stock exchange indices as at December 31, 2021 and 2020:

	2021		
Market Indices	**Change in Stock Index**	**Impact on Income Before Tax**	**Impact on Equity**
Hang Seng Index (HSI)	**17.62%**	**₱–**	**₱491,957**
	(17.62%)	**–**	**(491,957)**
PSEi	**4.74%**	**1,554,309**	**2,103,626**
	(4.74%)	**(1,554,309)**	**(2,103,626)**
Financial Times Stock Exchange (FTSE)	**11.68%**	**–**	**258,360**
	(11.68%)	**–**	**(258,360)**
Standard and Poor's Index (SPX)	**1.18%**	**–**	**30,628**
	(1.18%)	**–**	**(30,628)**
FTSE Straits Times Index (FSSTI)	**2.63%**	**–**	**171,645**
	(2.63%)	**–**	**(171,645)**

	2020		
Market Indices	Change in Stock Index	Impact on Income Before Tax	Impact on Equity
Hang Seng Index (HSI)	10.36%	₱–	₱377,691
	(10.36%)	–	(377,691)
PSEi	3.60%	–	489,855
	(3.60%)	–	(489,855)
Financial Times Stock Exchange (FTSE)	18.71%	–	306,921
	(18.71%)	–	(306,921)
Standard and Poor's Index (SPX)	4.04%	–	104,284
	(4.04%)	–	(104,284)
FTSE Straits Times Index (FSSTI)	10.64%	–	572,903
	(10.64%)	–	(572,903)

The effect on equity is caused by reasonably possible changes in the relevant market indices which lead to changes in the market value of investment securities classified as financial assets at FVOCI. The effect on income is caused by reasonably possible changes in the relevant market indices which lead to changes in the market value of investment securities classified as financial assets at FVPL.

The equity impact is arrived at using the reasonably possible change for the past five years of the relevant market indices and the specific adjusted beta of each stock the Group holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

The impact on the Group's equity already excludes the impact on transactions affecting the consolidated statements of comprehensive income.

27. Classification of Consolidated Statements of Financial Position Accounts

The current portions of the Group's assets and liabilities as at December 31, 2021 and 2020 are as follows:

	2021	2020
Current assets:		
Cash and cash equivalents	**₱1,309,862,690**	₱972,303,861
Short-term investments	**11,880,219**	62,796,981
Insurance receivables	**36,080,607**	33,538,391
Investment securities	**1,223,738,800**	1,030,859,989
Loans receivables	**701,521,268**	657,054,314
Accrued income	**64,048,218**	72,813,698
Other current assets	**1,181,045**	5,175,452
	₱3,348,312,847	₱2,834,542,686
Current liabilities:		
Insurance contract liabilities	**₱2,264,602,663**	₱1,822,644,265
Policyholders' dividends payable	**130,592,414**	142,208,734
Premium deposit fund	**311,114,991**	322,498,519
Insurance payables	**85,776,580**	94,278,156
Loans payable	**4,811,634**	23,286,209
Accounts payable and accrued expenses	**161,286,692**	161,204,052
Income tax payable	**560,325**	3,658,568
Other liabilities	**232,132,912**	214,178,155
	₱3,190,878,211	₱2,783,956,658

28. Other Matter

The country is currently experiencing a pandemic virus crisis resulting in a slowdown in the Philippine economy because of mandated lockdowns all over the country. The continuing effect of the crisis on the Group's financial performance, however, cannot be reasonably determined as at report date. Nonetheless, the Group believes that it can remain as going concern given its access to short-term and long-term funding from banks and its stockholders.