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Report of Independent Certified Public Accountants to Accompany Income Tax Return

The Board of Directors
Lacson & Lacson Insurance Brokers, Inc.
15th Floor, Burgundy Corporate Tower
252 Senator Gil Puyat Avenue
Makati City

We have audited the financial statements of Lacson & Lacson Insurance Brokers, Inc. (the Company) for the year ended December 31, 2020, on which we have rendered the attached report dated May 28, 2021.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

PUNONGBAYAN & ARAULLO

By: Renan A. Piamonte
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 8533237, January 4, 2021, Makati City
SEC Group A Accreditation
Partner - No. 107805-SEC (until Dec. 31, 2023)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-037-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

May 28, 2021

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Report of Independent Auditors

The Board of Directors
Lacson & Lacson Insurance Brokers, Inc.
15th Floor, Burgundy Corporate Tower
252 Senator Gil Puyat Avenue
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lacson & Lacson Insurance Brokers, Inc. (the Company), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and the notes to financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of a Matter

We draw attention to Note 1 to the financial statements, which describes management's assessment of the continuing impact on the Company's financial statements of the business disruption brought by the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2020 required by the Bureau of Internal Revenue, as disclosed in Note 26 to the financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Renan A. Piamonte
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 8533237, January 4, 2021, Makati City
SEC Group A Accreditation
Partner - No. 107805-SEC (until Dec. 31, 2023)
Firm - No. 0002 (until Dec. 31, 2024)
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

May 28, 2021

LACSON & LACSON INSURANCE BROKERS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	4	**P 109,255,028**	P 103,085,912
Premiums and other receivables - net	5	**256,828,533**	183,667,076
Financial asset at fair value through profit or loss - net	6	**13,426,925**	14,025,940
Prepayments and other current assets	7	**29,033,442**	21,086,479
Total Current Assets		**408,543,928**	321,865,407
NON-CURRENT ASSETS			
Financial asset at fair value through other comprehensive income - net	8	**65,399,400**	67,937,116
Property and equipment - net	9	**115,308,267**	124,760,186
Investment property	10	**1,694,250**	1,694,250
Deferred tax assets - net	18	**4,460,905**	4,722,656
Post-employment defined benefit asset	17	**1,736,847**	-
Other non-current assets	11	**248,777,123**	184,411,918
Total Non-current Assets		**437,376,792**	383,526,126
TOTAL ASSETS		**P 845,920,720**	P 705,391,533
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Due to insurance companies	2	**P 249,519,501**	P 172,950,878
Accounts payable, accrued expenses and other liabilities	12	**92,208,949**	106,403,947
Total Current Liabilities		**341,728,450**	279,354,825
NON-CURRENT LIABILITIES			
Funds held in trust	11, 14	**235,348,446**	166,314,877
Post-employment defined benefit obligation	17	**-**	1,666,696
Total Non-current Liabilities		**235,348,446**	167,981,573
Total Liabilities		**577,076,896**	447,336,398
EQUITY	15		
Capital stock		**150,000,000**	150,000,000
Treasury shares - at cost		**(345,000)**	(345,000)
Revaluation reserves		**(3,297,825)**	(2,699,409)
Retained earnings		**122,486,649**	111,099,544
Total Equity		**268,843,824**	258,055,135
TOTAL LIABILITIES AND EQUITY		**P 845,920,720**	P 705,391,533

See Notes to Financial Statements.

LACSON & LACSON INSURANCE BROKERS, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
COMMISSION REVENUES	13	**P 125,747,943**	P 122,939,910
OPERATING EXPENSES			
Salaries and other employee benefits	17	**75,735,364**	74,084,644
Depreciation	9	**19,761,459**	8,868,894
Insurance		**6,730,798**	12,688,466
Communication, light and water		**4,585,102**	3,860,530
Printing and office supplies		**2,155,386**	3,278,363
Dues and assessments		**1,747,411**	1,521,315
Taxes and licenses	26	**1,458,570**	3,691,422
Repairs and maintenance		**1,246,427**	1,062,063
Transportation		**1,096,373**	4,450,931
Professional fees		**1,082,250**	1,476,875
Representation		**575,605**	1,661,138
Rental	21	**499,050**	919,430
Claims		**355,897**	212,711
Bad debts	5	**95,920**	251,246
Commission		**91,765**	-
Other operating expenses		**1,887,833**	1,973,811
		119,105,210	120,001,839
OPERATING PROFIT		**6,642,733**	2,938,071
OTHER INCOME (CHARGES)			
Finance income - net	16	**3,264,165**	8,712,504
Other income	16	**6,424,858**	4,527,364
		9,689,023	13,239,868
PROFIT BEFORE TAX		**16,331,756**	16,177,939
TAX EXPENSE	18	**4,944,651**	5,210,810
NET PROFIT		**11,387,105**	10,967,129
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently to profit or loss			
Fair value loss on financial assets at fair value through other comprehensive income (FVOCI)	8, 15	**(3,834,148)**	(2,181,350)
Gain (loss) on remeasurements of post-employment defined benefit obligation	17	**3,436,405**	(2,503,522)
Tax income	18	**119,323**	1,405,462
		(278,420)	(3,279,410)
Items that will be reclassified subsequently to profit or loss			
Fair value loss on financial assets at FVOCI	8, 15	**(319,996)**	(39,071)
Total Other Comprehensive Loss - net of tax		**(598,416)**	(3,318,481)
TOTAL COMPREHENSIVE INCOME		**P 10,788,689**	P 7,648,648

See Notes to Financial Statements.

LACSON & LACSON INSURANCE BROKERS, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Capital Stock (see Note 15)	Treasury Shares - at cost	Stock Dividends Distributable (see Note 15)	Revaluation Reserves (see Note 15)	Retained Earnings (see Note 15)			Total Equity
					Unappropriated	Appropriated	Total	
Balance at January 1, 2020	P 150,000,000	(P 345,000)	P -	(P 2,699,409)	P 111,099,544	P -	P 111,099,544	P 258,055,135
Total comprehensive income for the year	-	-	-	(598,416)	11,387,105	-	11,387,105	10,788,689
Balance at December 31, 2020	**P 150,000,000**	**(P 345,000)**	**P -**	**(P 3,297,825)**	**P 122,486,649**	**P -**	**P 122,486,649**	**P 268,843,824**
Balance at January 1, 2019	P 50,000,000	(P 345,000)	P 100,000,000	(P 1,164,208)	P 15,151,295	P 86,764,400	P 101,915,695	P 250,406,487
Stock dividend distribution	100,000,000	-	(100,000,000)	-	-	-	-	-
Reversal of appropriation during the year	-	-	-	-	86,764,400	(86,764,400)	-	-
Recycling of accumulated fair value losses on disposed equity securities	-	-	-	1,783,280	(1,783,280)	-	(1,783,280)	-
Total comprehensive income for the year	-	-	-	(3,318,481)	10,967,129	-	10,967,129	7,648,648
Balance at December 31, 2019	P 150,000,000	(P 345,000)	P -	(P 2,699,409)	P 111,099,544	P -	P 111,099,544	P 258,055,135

See Notes to Financial Statements.

LACSON & LACSON INSURANCE BROKERS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 16,331,756**	P 16,177,939
Adjustments for:			
Depreciation	9	**19,761,459**	8,868,894
Dividend income	8, 16	**(2,610,384)**	(3,107,215)
Interest income	16	**(1,834,052)**	(4,790,305)
Unrealized fair value losses (gains) on financial assets at fair value through profit or loss	16	**599,015**	(582,517)
Unrealized foreign currency exchange losses (gains) - net	16, 22	**491,795**	(232,467)
Bad debts expense	5	**95,920**	251,246
Gain on sale of property and equipment	9	**-**	(388,792)
Operating profit before working capital changes		**32,835,509**	16,196,783
Increase in premiums and other receivables - net		**(73,346,578)**	(69,075,255)
Increase in prepayments and other current assets		**(12,355,671)**	(15,152,794)
Decrease (increase) in other non-current assets		**(66,102,052)**	29,823,846
Increase in due to insurance companies		**76,568,623**	13,134,957
Increase (decrease) in accounts payable, accrued expenses and other liabilities		**(14,194,998)**	27,276,875
Increase in funds held in trust		**69,033,569**	18,194,881
Increase (decrease) in post-employment defined benefit obligation		**1,769,709**	(2,737,697)
Net cash generated from operations		**14,208,111**	17,661,596
Cash paid for final taxes	18	**(154,869)**	(803,113)
Net Cash From Operating Activities		**14,053,242**	16,858,483
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	9	**(10,309,540)**	(51,312,561)
Dividends received	8	**2,610,384**	3,107,215
Interest received	16	**1,834,052**	4,790,305
Acquisitions of financial assets at fair value through other comprehensive income (FVOCI)	8	**(1,616,428)**	-
Proceeds from sale of property and equipment	9	**-**	530,000
Proceeds from disposal of financial assets at FVOCI	8	**-**	326,676
Net Cash Used in Investing Activities		**(7,481,532)**	(42,558,365)
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		**(402,594)**	36,291
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**6,169,116**	(25,663,591)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**103,085,912**	128,749,503
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 109,255,028**	P 103,085,912

Supplemental Information on Noncash Investing Activity -

The Company reclassified certain Deposits under Other Non-current Assets to Property and Equipment amounting to P54.95 million, in relation to advances made for the construction of office space that was completed in 2019 (see Notes 9 and 11).

See Notes to Financial Statements.

LACSON & LACSON INSURANCE BROKERS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Corporate Information

Lacson & Lacson Insurance Brokers, Inc. (the Company) was incorporated and registered on February 2, 1976 with the Philippine Securities and Exchange Commission (SEC), and operates as an insurance and reinsurance broker for companies insuring life, health, accident, fire and allied lines, motor vehicles, casualty, surety bonds, marine cargo, marine hull, workmen's compensation, comprehensive general liability, contractors' all risks and aviation insurance.

The Company's registered office address, which is also its principal place of business, is located at the 15th Floor, Burgundy Corporate Tower, 252 Senator Gil Puyat Avenue, Makati City.

The financial statements of the Company as of and for the year ended December 31, 2020 (including the comparative financial statements as of and for the year ended December 31, 2019) were authorized for issue by the Company's Chief Operating Officer on May 28, 2021.

1.2 Impact of COVID-19 Pandemic on Company's Business

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020. The measures taken by the government to contain the virus have affected economic conditions and the Company's business operations.

The following are the impact of the COVID-19 pandemic to the Company's business:

- shifted to a full work-from-home set-up with employees given the flexibility and choice to report to office premises if need be and subject to maximum capacity;
- additional administrative expenses were incurred to ensure health and safety of its employees such as disinfection of facilities, provision of protective personal equipment, free COVID-19 tests, and free online health consultation; and,
- additional operating expenses were also incurred to support the work-from-home set-up of employees, including provision of laptop, and access to other office and communication tools.

In response to this matter, the Company has taken the following actions:

- restriction of business travels and implementation of virtual meetings as alternative to face-to-face discussions;
- creation of programs, policies and guidelines to mitigate the risk of COVID-19 infection in the workplace should employees opt to report to office premises; and,
- allocation of budget to fully support all the additional administrative and operating expenses.

Despite the negative impact of the pandemic in the general business environment, the Company managed to keep business as usual with minimal increase in revenues by 2% since 85% to 90% of the clients are corporate.

Management projects that the Company will continue to report positive results of operations in the future and would remain liquid to meet current obligation as it falls due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income, expense and other comprehensive income or loss in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine Pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency, the currency of the primary economic environment in which the Company operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2020 that are Relevant to the Company

The Company adopted for the first time the following revised conceptual framework and amendments to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

Discussed below are the relevant information about these pronouncements.

(i) *Revised Conceptual Framework for Financial Reporting.* The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The application of the revised conceptual framework had no significant impact on the Company's financial statements.

(ii) PAS 1 (Amendments), *Presentation of Financial Statements,* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material.* The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency. The application of these amendments had no significant impact on the Company's financial statements.

(iii) PFRS 7 (Amendments), *Financial Instruments: Disclosures,* and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform.* The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no significant impact on the Company's financial statements because the Bank has no hedging transactions.

(b) Effective in 2020 that are not Relevant to the Company

The PFRS 3 (Amendments), *Business Combination – Definition of a Business,* is mandatorily effective for annual periods beginning on or after January 1, 2020 but are not relevant to the Company's financial statements.

(c) Effective Subsequent to 2020 but not Adopted Early

There are pronouncements effective for annual periods subsequent to 2020, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

(i) PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions* (effective from June 30, 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

(ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

(iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Company:

- PFRS 9 (Amendments), Financial Instruments – *Fees in the '10 per cent' Test for Derecognition of Liabilities*. The improvements clarify the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

- Illustrative Examples Accompanying PFRS 16 – *Lease Incentives*. The improvement merely removes potential for confusion regarding lease incentives.

(v) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

(a) Financial Assets

For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Company commits to purchase or sell the asset).

(i) Classification, Measurement and Reclassification of Financial Assets

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

Financial Assets at Amortized Cost

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

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Premiums and Other Receivables, and Restricted funds (presented as part of Other Non-current Assets).

For purposes of cash flows reporting and presentation, cash and cash equivalents are defined as cash on hand, savings deposits and short-term, highly liquid investments with original maturities of three months or less and readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

Financial Assets at Fair Value Through Other Comprehensive Income

The Company accounts for financial assets at fair value through other comprehensive income (FVOCI) if the assets meet the following conditions:

- these are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Company for trading or as mandatorily required to be classified as fair value through profit or loss (FVTPL). As at the reporting periods, all equity instruments of the Company were designated as investments at FVOCI.

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

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

Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Company designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Company's financial assets at FVTPL include equity securities which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in profit or loss as part of Other Income (Charges) in the statement of comprehensive income. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

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

The Company can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Company is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

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

(ii) Impairment of Financial Assets

The Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. The measurement of ECL involves consideration of broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all premiums and other receivables. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL using a provision matrix, the Company uses its historical experience, external indicators and forward-looking information. The Company also assesses impairment of premiums and other receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [see Note 22.2(b)].

For debt instruments measured at FVOCI and at amortized cost, the allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial asset, in such case, a lifetime ECL for a purchased or originated credit impaired, the allowance for credit losses is based on the change in the ECL over the life of the asset. The Company recognized a loss allowance for such losses at each reporting date.

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

- *Probability of default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

The Company recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments measured at FVOCI, for which the loss allowance is recognizes in other comprehensive income and accumulated in Revaluation Reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(iii) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(b) Financial Liabilities

Financial liabilities, which include due to insurance companies, accounts payable, accrued expenses and other liabilities, and funds held in trust, are recognized when the Company becomes a party to the contractual terms of the instrument.

All interest-related charges on financial liabilities are recognized as an expense in the statement of comprehensive income.

Due to Insurance Companies, Accounts Payable, Accrued Expenses and Other Liabilities, except value-added tax (VAT) and other taxes payables, and Funds Held in Trust are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments. Funds held in trust represent the amount of funds which the Company holds in behalf of various insurers.

Due to insurance companies represent the premiums already received by the Company from the insured, which will be remitted to the insurers, net of the Company's commission.

Funds held in trust are recognized at face value of the related cash account and short-term placements, which are presented as Restricted funds under the Other Non-current Assets account in the statement of financial position.

Cash dividend distributions to stockholders, if any, are recognized as financial liabilities upon declaration by the Company.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

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

(c) Offsetting Financial Instruments

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

2.4 Prepayments and Other Assets

Prepayments and other assets pertain to other resources controlled by the Company as a result of past events. These are recognized at cost in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably. These are subsequently charged to profit or loss as utilized or reclassified to another asset account, if capitalizable.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.11).

2.5 Property and Equipment

Property and equipment, except land, are measured at acquisition cost or construction cost less accumulated depreciation and any impairment in value. Land held for use in production or administration is stated at cost less any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

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

Building and building improvements	5-10 years
Transportation equipment	5 years
Office furniture and equipment	3 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.11).

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

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

An item of property and equipment, including the related accumulated depreciation and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.6 Investment Property

Investment property includes parcel of land held for currently undetermined future use and for capital appreciation, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Land classified under investment property is measured at cost less any impairment in value. The cost of an investment property comprises its purchase price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs. Expenditures for additions, major improvements, and renewals are capitalized while expenditures for repairs and maintenance are charged to expenses when incurred.

Impairment loss on investment property is recognized in the same manner as in property and equipment. Accordingly, the carrying amount of an investment property is immediately written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.11).

Investment property, including the related accumulated impairment losses, are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment property are recognized as part of Other Income (Charges) in the statement of comprehensive income in the year of retirement or disposal.

2.7 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.8 Revenue and Expense Recognition

Revenue arises mainly from commission and service revenue from operating as an insurance and reinsurance broker for companies insuring life, health, accident, fire and allied lines, motor vehicles, casualty, surety bonds, marine cargo, marine hull, workmen's compensation, comprehensive general liability, contractors' all risks and aviation insurance.

To determine whether to recognize revenue, the Company follows a five-step process:

(a) identifying the contract with a customer;
(b) identifying the performance obligation;
(c) determining the transaction price;
(d) allocating the transaction price to the performance obligations; and,
(e) recognizing revenue when/as performance obligations are satisfied.

The Company determined whether a contract with customer exists by evaluating whether the following gating criteria are present:

(i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
(iii) the payment terms for the goods or services to be transferred or performed can be identified;
(iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
(v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
(ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(iii) the Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

The Company enters into transactions involving operating as an insurance and reinsurance broker for companies. The significant judgments used in determining the transaction price and the significant judgments in determining the timing of satisfaction of the following performance obligations are disclosed in Note 3.1(a). The transaction price allocated to the performance obligation satisfied over time is recognized as revenue as the performance obligation is satisfied. Transaction price refers to the fair value of consideration received or receivable by the Company for services rendered, excluding VAT. The Company uses the practical expedient in PFRS 15 with respect to non-disclosure of the aggregate amount of the transaction price allocated to unsatisfied or partially satisfied performance obligations as of the end of the reporting period and the explanation of when such amount will be recognized as revenue as the Company's contracts with customers have original expected duration of one year or less.

In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) Commission revenue – Revenue on insurance brokerage is recognized at a point in time upon collection of the insurance premium either by the Company or by the insurance companies. The commission is received upon collection of the insurance premium, which will subsequently be remitted to the insurance companies, net of commissions earned.

(b) *Commission on reinsurance* – Revenue on reinsurance brokerage is recognized also at a point in time when services to the ceding company are rendered and upon receipt of acceptance by the reinsurer. Commission on reinsurance is earned since the Company is engaged as insurance broker for various ceding companies. Premiums due from cedants are collectible by the Company for the account of and remitted to the reinsurers, net of commissions earned.

(c) *Service fees* – Service fees are revenue from administering healthcare programs on behalf of the insurers plus other related services and is recognized over time.

The Company presents a contract liability when a customer pays the consideration or the Company has the right to an amount of consideration that is unconditional (i.e., a receivable), before the Company collects and remits the insurance premiums from the insured companies. The contract liability is presented as Deferred Income under the Accounts Payable, Accrued Expenses and Other Liabilities account in the statement of financial position.

In obtaining customer contracts, the Company incurs incremental costs. As the expected amortization period of these costs, if capitalized, would be less than one year, the Company uses the practical expedient in PFRS 15 and expenses such costs as incurred.

Cost and expenses are recognized in profit or loss upon utilization of services or receipt of goods or at the date these are incurred.

2.9 Leases

The Company accounts for its leases as follows:

(a) *Company as Lessee*

The Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

All of the lease agreements entered into by the Company as a lessee have qualified as either short-term lease or lease of low-value assets, and were accounted for using the practical expedients as allowed by PFRS 16. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(b) Company as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

2.10 Foreign Currency Transactions and Translation

The accounting records of the Company are maintained in Philippine Pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

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

2.11 Impairment of Non-financial Assets

The Company's property and equipment, investment property and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.12 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized and measured as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The asset or liability is recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of zero coupon government bonds [using the references rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed services.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest expense under the Operating Expenses section or Interest income under Other Income section in the statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. These are included in Accounts Payable, Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.13 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

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

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.14 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual; and, (d) the Company's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.15 Equity

Capital stock represents the nominal value of shares that have been issued.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves result from:

(a) Fair valuation of financial assets at FVOCI resulting in gains or losses due to mark-to-market valuation [see Note 2.3(a)(i)]; and,

(b) Remeasurements of post-employment DBO based on the cumulative balance of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions used in the determination of post-employment DBO.

Retained earnings, the appropriated portion of which, if any, is not available for dividends declaration, include all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amount of dividends declared, if any.

2.16 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Determination of Transaction Price and Timing of Satisfaction of Performance Obligations

(i) Commission Revenue

The Company determines that its commission revenue on insurance brokerage shall be recognized at a point in time upon collection of the insurance premium either by the Company or the insurance provider which is the point where the Company substantially renders the service based on the agreement with the insurance provider, and is based on commission rates on the gross premium billing.

(ii) Commission on Reinsurance

The Company determines that its revenue on commission on reinsurance is recognized also at a point in time when services to the ceding company are rendered and upon receipt of acceptance by the reinsurer. Premiums due from cedants are collectible by the Company for the account of and remitted to the reinsurers, net of commissions earned.

(iii) Service Fee

The Company determines that the revenues from service fee are recognized over time. In making its judgement, the Company considers the timing of receipt and consumption of benefits provided by the Company to the insured. The Company administers the claims funds on behalf of the insurance companies without the need of reperformance of other companies. This demonstrates that the customers simultaneously receive and consume the benefits of the Company's administering of claims from the insured companies.

In determining the best method of measuring the progress of the Company's administering of claims, management considers the amount of claims disbursed because of the direct relationship between the Company's effort, in terms of transfer of service to the insured companies.

(b) Determination of ECL on Premiums and Other Receivables

The Company uses a provision matrix to calculate ECL for premiums and other receivables. The provision rates are based on days past due for groupings of various customer segments to the extent applicable that have similar loss patterns (i.e., by service type, customer type and rating).

The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Company's premiums and other receivables are disclosed in Note 22.2(b).

(c) Evaluation of Business Model Applied in Managing Financial Instruments

The Company developed business models which reflect how it manages its portfolio of financial instruments. The Company's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Company) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Company evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Company (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Company's investment and trading strategies.

(d) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets, the Company assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Company assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Company considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, it is emphasized that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Company considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Company can explain the reasons for those sales and why those sales do not reflect a change in the Company's objective for the business model.

(e) Distinction Between Investment Property and Owner-occupied Properties

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

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.7 and disclosures on relevant provisions and contingencies are presented in Note 21.

3.2 Key Sources of Estimation Uncertainty

Presented below and in the succeeding pages are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

(a) Estimation of Allowance for ECL

The measurement of the allowance for ECL on financial assets at amortized cost and at FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 22.2.

(b) Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Company's financial assets at FVTPL and FVOCI and the amounts of fair value changes recognized on those assets are disclosed in Notes 6 and 8, respectively.

(c) Estimation of Useful Lives of Property and Equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets.

The carrying amounts of property and equipment are presented in Note 9. Based on management's assessment as at December 31, 2020 and 2019, there is no change in the estimated useful lives of property and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Determination of Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. As of December 31, 2020 and 2019, the Company did not recognize certain deferred tax assets as management believes that the Company will not be able to utilize these in the coming years (see Note 18).

(e) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.11). Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, no impairment loss is required to be recognized on the Company's property and equipment, investment property and other non-financial assets in 2020 and 2019.

(f) Fair Value Measurement of Investment Property

Investment property, which is composed a parcel of land is measured using the cost model. The fair value disclosed in the financial statements (see Note 24.4) is determined by the Company using the valuation technique of market approach.

Under market approach, sales prices and other key attributes such as property size, zoning, and accessibility of comparable property in close proximity are used in the valuation of the subject property. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value.

There has been no change to valuation technique used by the Company during the year for its investment property.

(g) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss, and the carrying amount of the post-employment DBO in the next reporting period.

The amounts of defined benefit post-employment obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 17.2.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follows as of December 31:

	2020	2019
Cash on hand and in banks	**P 94,045,501**	P 89,374,478
Short-term placements	**15,209,527**	13,711,434
	P 109,255,028	P 103,085,912

Cash accounts with banks generally earn interest based on daily bank deposit rates. Short-term placements have an average maturity of 30 days and effective interest rate per annum of 0.5% to 3.4% in 2020 and 1.75% to 6.70% in 2019. Interest income earned from this account amounted to P0.44 million and P2.95 million in 2020 and 2019, respectively, and is presented as part of Finance Income - Net under Other Income (Charges) in the statements of comprehensive income (see Note 16.1).

5. PREMIUMS AND OTHER RECEIVABLES

This account includes the following:

	Notes	**2020**	2019
Premiums		**P 206,762,763**	P 127,396,946
Fees receivables	14	**39,837,229**	37,408,538
Due from related parties	19.1	**6,977,007**	6,495,608
Advances to officers and employees		**1,170,301**	1,329,429
Claims		**887,615**	500,285
Notes receivable	16.1	**-**	10,000,000
Miscellaneous	14	**8,000,413**	7,343,065
		263,635,328	190,473,871
Allowance for impairment		**(6,806,795)**	(6,806,795)
		P 256,828,533	P 183,667,076

Premiums receivables are usually due within 30 days and do not bear any interest.

Fees receivables represent receivables from service fees for administering healthcare programs.

Notes receivable pertains to placement in 2018 with interest rate of 7.02% per annum which matured in April 29, 2020. In 2020 and 2019, the interest income earned from this account amounted to P0.18 million and P0.53 million, respectively.

Miscellaneous receivables include advances to the funds held in trust amounting to P6.75 million and P6.62 million as of December 31, 2020 and 2019, respectively, to accommodate payment for medical expenses of the insured entities' employees and beneficiaries.

All of the Company's premiums and other receivables have been assessed for impairment. Certain receivables, which are mostly due from various customers, were assessed to be impaired; hence, adequate amounts of allowance for impairment have been recognized.

No additional impairment loss on premiums and other receivables is necessary to be recognized in 2020 and 2019 based on management's assessment.

The Company recognized impairment losses on premiums and other receivables amounting to P0.10 million and P0.25 million in 2020 and 2019, all through direct write-off. These impairment losses are presented as Bad Debts under the Operating Expenses section of the statements of comprehensive income.

Except for premiums receivable, all receivables are subject to credit risk exposure. For premiums receivable, the Company has no significant credit exposure since this is for the account of the insurance companies. The Company does not identify specific concentrations of credit risk with regard to receivables as the amounts recognized resemble a large number of receivables from various customers.

6. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

The Company acquired Unit Investment Trusts Funds (UITF) that were classified as financial assets at FVTPL. This investment, amounting to P13.43 million and P14.03 million as of December 31, 2020 and 2019, respectively, is presented at its fair market value in accordance with PFRS 9 (see Note 24.2).

The related unrealized fair value losses amounting to P0.60 million in 2020 and fair value gains amounting to P0.58 million in 2019, were recognized as part of Finance Income - Net under Other Income (Charges) in the statements of comprehensive income (see Note 16.1).

Interest income earned amounting to P0.70 million and P0.66 million in 2020 and 2019, respectively, were recognized as part of Finance Income - Net under Other Income (Charges) in the statements of comprehensive income (see Note 16.1).

7. PREPAYMENTS AND OTHER CURRENT ASSETS

This account includes the following:

	Note	2020	2019
Creditable withholding taxes	25	**P 23,835,927**	P 13,636,228
Others		**5,197,515**	7,450,251
		P 29,033,442	P 21,086,479

8. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The reconciliation of the carrying amounts of financial assets at FVOCI follows:

	Note	2020	2019
Balance at beginning of year		**P 67,937,116**	P 70,484,213
Fair value losses	15.2	**(4,154,144)**	(2,220,421)
Additions		**1,616,428**	-
Disposals		**-**	(326,676)
Balance at end of year		**P 65,399,400**	P 67,937,116

The breakdown of financial assets at FVOCI is as follows:

	2020	2019
Listed equity shares in the Philippine Stock Exchange (PSE)	**P 43,164,696**	P 43,422,417
Golf and yacht club shares	**12,380,000**	14,340,000
Listed debt securities	**9,854,704**	10,174,699
	P 65,399,400	P 67,937,116

The significant portion of the fair values of financial assets at FVOCI have been determined directly by reference to published prices in active markets (see Note 24.2).

In 2020, the Company acquired additional equity securities amounting to P1.62 million. In 2019, the Company disposed certain equity securities at its carrying amount of P0.33 million.

The Company earned dividends amounting to P2.61 million in 2020 and P3.11 million in 2019 from its equity securities and these are shown as part of Finance Income – Net under Other Income (Charges) section in the statements of comprehensive income (see Note 16.1).

Interest income earned amounting to P0.70 million and P0.66 million in 2020 and 2019, respectively, were recognized as part of Finance Income - Net under Other Income (Charges) in the statements of comprehensive income (see Note 16.1).

No impairment losses on debt securities was determined by the Company in both 2020 and 2019.

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of 2020 and 2019 are shown below.

	Building and Building Improvements	Transportation Equipment	Office Furniture and Equipment	Land	Total
December 31, 2020					
Cost	P 165,223,589	P 26,948,236	P 36,846,347	P 2,500,000	P 231,518,172
Accumulated depreciation	(63,881,914)	(19,970,465)	(32,357,526)	-	(116,209,905)
Net carrying amount	**P 101,341,675**	**P 6,977,771**	**P 4,488,821**	**P 2,500,000**	**P 115,308,267**
December 31, 2019					
Cost	P 158,741,349	P 24,886,272	P 35,081,011	P 2,500,000	P 221,208,632
Accumulated depreciation	(50,695,244)	(16,570,590)	(29,182,612)	-	(96,448,446)
Net carrying amount	P 108,046,105	P 8,315,682	P 5,898,399	P 2,500,000	P 124,760,186
January 1, 2019					
Cost	P 60,343,849	P 23,279,485	P 29,941,157	P 2,500,000	P 116,064,491
Accumulated depreciation	(47,556,136)	(14,238,077)	(26,765,024)	-	(88,559,237)
Net carrying amount	P 12,787,713	P 9,041,408	P 3,176,133	P 2,500,000	P 27,505,254

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2020 and 2019 is shown below.

	Building and Building Improvements	Transportation Equipment	Office Furniture and Equipment	Land	Total
Balance at January 1, 2020, net of accumulated depreciation	P 108,046,105	P 8,315,682	P 5,898,399	P 2,500,000	P 124,760,186
Additions	6,482,240	2,061,964	1,765,336	-	10,309,540
Depreciation charges for the year	(13,186,670)	(3,399,875)	(3,174,914)	-	(19,761,459)
Balance at December 31, 2020, net of accumulated depreciation	**P 101,341,675**	**P 6,977,771**	**P 4,488,821**	**P 2,500,000**	**P 115,308,267**
Balance at January 1, 2019, net of accumulated depreciation	P 12,787,713	P 9,041,408	P 3,176,133	P 2,500,000	P 27,505,254
Additions	43,445,028	2,727,679	5,139,854	-	51,312,561
Reclassification (see Note 11)	54,952,472	-	-	-	54,952,472
Disposals	-	(141,207)	-	-	(141,207)
Depreciation charges for the year	(3,139,108)	(3,312,198)	(2,417,588)	-	(8,868,894)
Balance at December 31, 2019, net of accumulated depreciation	P 108,046,105	P 8,315,682	P 5,898,399	P 2,500,000	P 124,760,186

The cost of fully depreciated property and equipment that are still being used in operations amounts to P74.88 million and P71.02 million as at December 31, 2020 and 2019, respectively.

In 2019, the Company disposed certain transportation equipment with total carrying amount of P0.14 million for a total consideration of P0.53 million. Related net gain on disposals of P0.39 million was recognized as part of Other Income under Other Income (Charges) section in the 2019 statement of comprehensive income (see Note 16.2). No similar transaction occurred in 2020.

10. INVESTMENT PROPERTY

Investment property consists of a parcel of land located in Cavite City. The total carrying amount of investment property is P1.69 million as of December 31, 2020 and 2019. The parcel of land is currently held for undetermined future use and for capital appreciation.

The fair value of the parcel of land amounts to P5.81 million and P4.59 million as of December 31, 2020 and 2019, respectively, based on the observable recent prices of the reference properties (see Note 24.4).

11. OTHER NON-CURRENT ASSETS

This account includes the following:

	Notes	**2020**	2019
Restricted funds	14	**P 235,348,446**	P 166,314,877
Deposits		**12,343,020**	17,025,383
Others	9	**1,085,657**	1,071,658
		P 248,777,123	P 184,411,918

Restricted funds pertain to the amount of funds which the Company holds on behalf of insurers.

Deposits pertains to advance payments made by the Company for the improvements of condominium units, which the Company intends to use as its office space in Alabang and Cebu City.

The Company reclassified certain Deposits amounting to P54.95 million to Building and building improvements for the purchase and construction of several condominium units and parking slots that were completed in 2019 (see Note 9).

No impairment losses were recognized on other non-current assets in 2020 and 2019.

12. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

This account consists of:

	Notes	**2020**	2019
Accrued expenses	21.1	**P 27,896,641**	P 28,108,938
Accounts payable		**27,217,389**	49,511,707
Deferred income	13.2	**24,996,400**	15,388,959
Other taxes payable		**2,184,044**	2,709,753
Others		**9,914,475**	10,684,590
		P 92,208,949	P 106,403,947

Accrued expenses include the accruals of performance bonus of employees and certain other provisions.

13. COMMISSION REVENUES

13.1 Disaggregation of Contract Revenues

The Company derives revenue from insurance and reinsurance brokerage over time and at a point in time in the following major service lines:

	Over time	Point in time	Total
2020			
Employee benefits insurance	P 24,541,541	P 60,770,625	P 85,312,166
Property insurance	-	32,032,160	32,032,160
Motor car insurance	-	8,403,617	8,403,617
	P 24,541,541	**P 101,206,402**	**P 125,747,943**
2019			
Employee benefits insurance	P 31,756,440	P 49,114,025	P 80,870,465
Property insurance	-	31,994,693	31,994,693
Motor car insurance	-	10,074,752	10,074,752
	P 31,756,440	P 91,183,470	P 122,939,910

Employee benefits insurance is insurance against the risk of incurring health expenses among individuals. This includes hospitalization and personal accidents assistances. The over time portion of this pertain to service fees charged to the insurers (see Note 14).

Property insurance covers most risk to properties, which consist of several specialized forms of insurance including fire, theft and weather damages.

Motor car insurance pertains to comprehensive motor and third party liabilities. This is an insurance for cars, trucks, motorcycles and other vehicles.

13.2 Deferred Income

A reconciliation of the movements of deferred income at the beginning and end of 2020 and 2019 are shown below.

	Note	**2020**	2019
Balance at beginning of year		**P 15,388,959**	P 12,024,364
Commission revenue billings		**100,451,500**	87,511,714
Collections		**(90,844,059)**	(84,147,119)
Balance at end of year	12	**P 24,996,400**	P 15,388,959

The Company satisfies its performance obligation upon collection of the insurance premium either by the Company or by the insurance companies.

The Company recognizes contract liability, due to timing difference of recognition of premium receivables and satisfaction of performance obligation, to the extent of unsatisfied performance obligation on all open contracts as of the end of the reporting period. Changes in deferred income are recognized by the Company upon performance of unsatisfied performance obligation.

14. FUNDS HELD IN TRUST

By virtue of agreements, claims funds are maintained by the Company on behalf of insurance companies. All claims made by insured beneficiaries under the insurance coverage of such insurance companies will be paid out of the fund, which is presented as Restricted funds under the Other Non-Current Assets account in the statements of financial position (see Note 11).

In turn, the Company earns service fees for administering healthcare programs on behalf of insurers. These are presented as part of Commission Revenues in the statements of comprehensive income (see Note 13). The Company also advances certain amounts to the fund to accommodate payment for medical expenses of the insured entities' employees and beneficiaries. The outstanding service fees and the related advances are presented as Fees receivables and as part of Miscellaneous, respectively, under the Premiums and Other Receivables account in the statements of financial position (see Note 5).

15. EQUITY

15.1 Capital Stock

In their respective meetings on December 18, 2017, the Company's Board of Directors (BOD) and stockholders approved the increase in the Company's authorized capital stock from P50.0 million, divided into 500,000 common shares with a par value of P100 per share, to P450.0 million divided into 4,500,000 common shares at P100 par value per share. On June 13, 2019, the SEC approved the Company's application for the increase in authorized capital.

As of December 31, 2020 and 2019, the Company's issued capital stock consists of 1,500,000 shares with P100 par value per share. Of this number of shares, 1,260 shares have been reacquired but not retired for a total cost of P0.35 million.

As of December 31, 2020 and 2019, the Company has nine stockholders owning 100 or more shares each of the Company's capital stock.

15.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under the Revaluation Reserves account, are as follows:

	Financial Assets at FVOCI (see Note 8)	Retirement Benefit Plan (see Note 17.2)	Total
Balance as of January 1, 2020	P 5,885,699	(P 8,585,108)	(P 2,699,409)
Remeasurements of post-employment DBO	-	3,436,405	3,436,405
Fair value losses on financial assets at FVOCI	(4,154,144)	-	(4,154,144)
Other comprehensive income (loss) before tax	(4,154,144)	3,436,405	(717,739)
Tax income (expense)	1,150,245	(1,030,922)	119,323
Other comprehensive income (loss) after tax	(3,003,899)	2,405,483	(598,416)
Balance as of December 31, 2020	**P 2,881,800**	**(P 6,179,625)**	**(P 3,297,825)**
Balance as of January 1, 2019	P 5,668,435	(P 6,832,643)	(P 1,164,208)
Remeasurements of post-employment DBO	-	(2,503,522)	(2,503,522)
Fair value losses on financial assets at FVOCI	(2,220,421)	-	(2,220,421)
Other comprehensive loss before tax	(2,220,421)	(2,503,522)	(4,723,943)
Tax income	654,405	751,057	1,405,462
Other comprehensive loss after tax	(1,566,016)	(1,752,465)	(3,318,481)
Recycling of accumulated fair value losses on disposed equity securities	1,783,280	-	1,783,280
Balance as of December 31, 2019	P 5,885,699	(P 8,585,108)	(P 2,699,409)

15.3 Retained Earnings

On December 9, 2015, the Company's BOD approved the appropriation of retained earnings amounting to P98.00 million for the purchase of additional office space under construction at the Hippodromo, Makati, Metro Manila. In December 2018, the Company reversed portion of this appropriation amounting to P11.24 million, which is equivalent to the amount already paid to the contractors. The construction of this office space was completed in 2019 and the remaining appropriation was reversed back to unappropriated retained earnings.

On December 18, 2017, the Company's BOD approved the declaration of 200% stock dividend of P100.00 million. The stock dividend was distributed to the stockholders in 2019 upon approval of the SEC of the increase in authorized capital stock on June 13, 2019.

16. OTHER INCOME (CHARGES)

These accounts are composed of the following:

16.1 Finance Income - net

	Notes	2020	2019
Dividend income	8	**P 2,610,384**	P 3,107,215
Interest income	4, 5, 6, 8, 17.2	**1,834,052**	4,790,305
Unrealized fair value gains (losses) on investments - net	6	**(599,015)**	582,517
Unrealized foreign currency exchange gains (losses) - net	22.1(a)	**(491,795)**	232,467
Interest expense	17.2	**(89,461)**	(-)
		P 3,264,165	P 8,712,504

16.2 Other Income

	Notes	2020	2019
Collection on previously written-off accounts		**P 4,885,771**	P 1,478,852
Gain on sale of property and Equipment	9	**-**	388,792
Rental income	19.1, 21.2	**-**	79,342
Miscellaneous		**1,539,087**	2,580,378
		P 6,424,858	P 4,527,364

Miscellaneous includes gain from collections of premiums in excess of billings made which were forfeited by customers.

17. EMPLOYEE BENEFITS

17.1 Salaries and Other Employee Benefits

Expenses recognized for salaries and other employee benefits are presented below.

	Note	2020	2019
Short-term employee benefits		**P 70,791,963**	P 70,747,227
Post-employment defined benefits	17.2	**4,943,401**	3,337,417
		P 75,735,364	P 74,084,644

17.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Company maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Company. The trustee bank managed the fund in coordination with the Company's Retirement Plan Committee who acts in the best interest of the retirement plan and is responsible for setting the investment policies. The post-employment benefit plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement upon completion of at least 10 years of service subject to the approval of the Company's BOD. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) based on the years of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2020 and 2019.

The amounts of post-employment retirement benefit obligation (asset) recognized in the statements of financial position are determined as follows:

	2020	2019
Present value of the obligation	**P 41,184,133**	P 42,122,789
Fair value of plan assets	**(42,989,585)**	(40,456,093)
Fund surplus (deficit)	**(1,805,452)**	1,666,696
Effect of asset ceiling	**68,605**	-
	(P 1,736,847)	P 1,666,696

The movements in the present value of the post-employment DBO recognized in the financial statements are presented below.

	2020	2019
Balance at beginning of year	**P 42,122,789**	P 35,233,336
Benefits paid	**(5,094,233)**	(203,199)
Current service cost	**4,943,401**	3,337,417
Interest expense	**2,198,810**	2,653,070
Remeasurements – actuarial losses (gains) arising from:		
Change in demographic assumptions	**(5,448,972)**	1,030,679
Experience adjustments	**3,063,447**	(5,457,370)
Change in financial assumptions	**(601,109)**	5,528,856
Balance at end of year	**P 41,184,133**	P 42,122,789

The movements in the fair value of plan assets are presented below.

	2020	2019
Balance at beginning of year	**P 40,456,093**	P 33,332,465
Benefits paid	**(5,094,233)**	(203,199)
Contributions to the plan	**5,000,000**	6,000,000
Interest income	**2,109,349**	2,728,184
Return on plan assets (excluding amount included in net interest)	**518,376**	(1,401,357)
Balance at end of year	**P 42,989,585**	P 40,456,093

Plan assets include cash and cash equivalents in 2020 and 2019, and investment in treasury bonds in 2020.

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2020	2019
Cash and cash equivalents	**P 12,431,532**	P 40,358,313
Treasury bonds	**30,525,017**	-
Accrued interest income	**33,036**	97,780
	P 42,989,585	P 40,456,093

The plan assets earned a return of P2.63 million and P1.33 million in 2020 and 2019, respectively.

The components of amounts recognized in profit or loss and in other comprehensive income or loss in respect of the defined benefit post-employment plan are as follows:

	2020	2019
Reported in profit or loss:		
Current service cost	**P 4,943,401**	P 3,337,417
Net interest expense (income)	**89,461**	(75,114)
	P 5,032,862	P 3,262,303
Reported in other comprehensive income or loss:		
Remeasurements – actuarial losses (gains) arising from:		
Change in demographic assumptions	**(P 5,448,972)**	P 1,030,679
Experience adjustments	**3,063,447**	(5,457,370)
Change in financial assumptions	**(601,109)**	5,528,856
Return on plan assets (excluding amount included in net interest)	**(518,376)**	1,401,357
Changes in the effect of asset ceiling	**68,605**	-
	(P 3,436,405)	P 2,503,522

Current service cost is presented in the statements of comprehensive income as part of Salaries and Other Employee Benefits account under the Operating Expenses section in the statements of comprehensive income (see Note 17.1).

Net interest income (expense) is reported as part of Finance Income - Net under Other Income (Charges) in the statements of comprehensive income (see Note 16.1).

Amounts recognized in other comprehensive income or loss were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2020	2019
Discount rates	**3.95%**	5.22%
Expected rate of salary increases	**4.56%**	6.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 24 for males and 29 for females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. Currently, the plan is composed solely of cash and cash equivalents.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Company's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are as follows:

(i) Sensitivity Analysis

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment DBO as of December 31, 2020 and 2019:

	Impact on Post-employment DBO		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2020			
Discount rate	**+8.2% /- 10.0%**	**(P 3,376,469)**	**P 4,105,116**
Salary growth rate	**+10.0%/- 8.2%**	**4,036,126**	**(3,388,011)**
2019			
Discount rate	+9.7% /- 12.0%	(P 4,097,668)	P 5,074,763
Salary growth rate	+12.0%/- 9.7%	4,980,938	(4,105,382)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the DBO as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the DBO has been calculated using the projected unit credit method at the end of the reporting periods, which is the same as that applied in calculating the post-employment DBO recognized in the statements of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Funding Arrangements and Expected Contributions

The plan is currently overfunded by P1.80 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about one to five years' time when a significant number of employees is expected to retire.

The Company expects to make contribution of P6.00 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan for the next 10 years is presented in the below.

	2020	2019
Within one year	**P 18,606,008**	P 16,752,369
More than one year to five years	**2,031,952**	3,517,941
More than five years to ten years	**8,193,947**	4,307,523
	P 28,831,907	P 24,577,833

The weighted average duration of the DBO at the end of the reporting period is 9.1 years.

18. TAXES

The components of tax expense as reported in profit or loss and other comprehensive income or loss follow:

	2020	2019
Reported in profit or loss:		
Current tax expense:		
Regular corporate income tax (RCIT) at 30%	**P 4,408,708**	P 3,102,525
Final tax at 20%, 15% and 10%	**154,869**	803,113
	4,563,577	3,905,638
Deferred tax expense relating to origination and reversal of temporary differences	**381,074**	1,305,172
	P 4,944,651	P 5,210,810
Reported in other comprehensive income (loss) –		
Deferred tax income relating to origination and reversal of temporary differences	**(P 119,323)**	(P 1,405,462)

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss follows:

	2020	2019
Tax on pretax profit at 30%	**P 4,899,527**	P 4,853,382
Adjustment for income subjected to lower income tax rates	**(814,064)**	(1,173,445)
Tax effects of non-deductible expenses	**859,188**	1,530,873
	P 4,944,651	P 5,210,810

The Company has unrecognized deferred tax asset on the allowance for impairment of its premiums and other receivables amounting to P2.04 million as of December 31, 2020 and 2019.

The net deferred tax assets reported in the statements of financial position relate to the following as of December 31:

	2020	2019
Unamortized past service costs	**P 4,073,788**	P 5,036,458
Unrealized gains (losses) on financial assets – net	**760,633**	(744,071)
Post-employment benefit obligation (asset)	**(521,055)**	500,009
Unrealized foreign currency exchange gains (losses) – net	**147,539**	(69,740)
Net deferred tax assets	**P 4,460,905**	P 4,722,656

Movements in net deferred tax assets are as follows for the years ended December 31.

	Statements of Comprehensive Income			
	Profit or Loss		Other Comprehensive Income (Loss)	
	2020	2019	2020	2019
Amortization of past service costs	**P 962,670**	P 225,280	**P -**	P -
Unrealized gains (losses) on financial assets	**(354,459)**	215,035	**(1,150,245)**	(654,405)
Unrealized foreign currency exchange losses – net	**(217,279)**	43,548	**-**	-
Post-employment benefit obligation (asset)	**(9,858)**	821,309	**1,030,922**	(751,057)
Net deferred tax expense (income)	**P 381,074**	P 1,305,172	**(P 119,323)**	(P 1,405,462)

The Company is subject to the minimum corporate income tax (MCIT), which is computed at 2% of gross income, net of allowance deductions, as defined under the tax regulations or RCIT at 30%, whichever is higher. No MCIT was reported in 2020 and 2019 as the RCIT was higher than the MCIT in both years.

In 2020 and 2019, the Company claimed itemized deductions in computing for its income tax due.

19. RELATED PARTY TRANSACTIONS

The Company's related parties include stockholders, related parties under common ownership, members of key management and others as described in Note 2.14.

The summary of the Company's transactions with its related parties as of and for the years ended December 31, 2020 and 2019 is presented below.

Related Party Category	Note	2020 Amount of Transaction	2020 Outstanding Balance	2019 Amount of Transaction	2019 Outstanding Balance
Related parties under common ownership:					
Cash advances	19.1	**P 481,399**	**P 6,977,007**	P 1,421,146	P 6,495,608
Rental income	19.1	**-**	**-**	79,342	-
Key management –					
Salaries and benefits	19.3	**14,660,015**	**-**	15,755,686	-
Retirement plan	19.2	**5,000,000**	**42,989,585**	6,000,000	40,456,093

None of the Company's outstanding balances with related parties have assessed to be impaired; hence, no impairment losses were recognized in both years.

19.1 Cash Advances to Related Parties

In the normal course of business, the Company grants cash advances to certain related parties for working capital requirements and other purposes. These advances are unsecured, noninterest-bearing and demandable in cash.

Outstanding balances of cash advances to related parties under common ownership is presented as Due from related parties under Premiums and Other Receivables account in the statements of financial position (see Note 5).

Rental income in 2019 includes rental collections from a related party under common ownership, for office space leased (see Note 16.2).

19.2 Retirement Plan

The Company's retirement plan is in the form of a bank-trustee managed account. The fair value of the retirement plan totaled P42.99 million and P40.46 million as of December 31, 2020 and 2019, respectively. The details of the retirement plan are presented in Note 17.2. In 2020 and 2019, the Company made contributions to the fund amounting to P5.00 million and P6.00 million, respectively.

19.3 Key Management Personnel Compensation

Salaries and other short-term benefits received by key management personnel are comprised of the following:

	2020	2019
Basic salaries	**P 12,312,026**	P 12,528,000
Other short-term benefits	**2,347,989**	3,227,686
	P 14,660,015	P 15,755,686

20. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern, to provide an adequate return to stockholders by pricing services commensurately with the level of risk, and to comply with the capital requirements enforced by the Insurance Commission (IC).

The IC, in its Circular Letter No. 2018-52, *Guidelines on the Licensing Requirements of Insurance and/or Reinsurance Brokers*, has set a minimum net worth for existing insurance and reinsurance brokers of P25.0 million.

The Company's equity as of December 31, 2020 and 2019 amounts to P268.84 million and P258.06 million, respectively, with total capital stock of P149.66 million, issued and outstanding in both years; hence, the Company is in compliance with the minimum capital requirement.

21. COMMITMENTS AND CONTINGENCIES

21.1 Deficiency Tax Assessment and Tax Case

On March 5, 2015, the Company filed an appeal to the CTA En Banc in relation to an on going alleged 2006 deficiency VAT filed by the Bureau of Internal Revenue (BIR) to the Company in 2010.

Pending resolution of the foregoing case, on November 29, 2016, the Company voluntarily paid the basic tax of P1.68 million, the 25% surcharge of P0.42 million and delinquency interest of P2.02 million or a total of P4.12 million to stop further accrual of interest.

On May 2, 2017, the Company elevated the case to Supreme Court and assailed the Decision and Resolution of the CTA En Banc via Petition for Review on *Certiorari*, which up to the audit report date is still pending.

The Company is confident that the tax case will be resolved in its favor. However, a provision has been recognized for the deficiency tax assessment and tax case, the outstanding balance of which amounting to P9.88 million both as of December 31, 2020 and 2019 is presented as part of the Accrued expenses under the Accounts Payable, Accrued Expenses and Other Liabilities account in the statements of financial position (see Note 12).

21.2 Operating Lease Commitments – Company as Lessor

The Company entered into an operating lease covering a portion of its Makati office to a certain related party under common ownership (see Note 19.1). The lease has a one-year term with renewal option and escalation clause. The annual rental covering this lease agreement is reported as Rental income under Other Income account in the 2019 statement of comprehensive income. There is no similar transaction in 2020.

21.3 Operating Lease Commitments – Company as Lessee

The Company is a lessee under various operating lease agreements covering certain low-value office equipment and short-term office space for the Bacolod branch. The lease has a term renewal of one year and includes annual escalation rate of 10% upon contract renewal.

The future minimum rentals payable within one year under these non-cancellable operating leases amount to P0.05 million as of December 31, 2020 and 2019. Rental expense charged to operations amounted to P0.50 million and P0.92 million in 2020 and 2019, respectively, and is presented as Rental expense under Operating Expenses in the statements of comprehensive income.

21.4 Others

There are other commitments and contingent liabilities that arise in the normal course of the Company's operations which are not reflected in the financial statements. As at December 31, 2020 and 2019, management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Company's financial statements.

22. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to certain financial risks which result from both its operating and investing activities. The Company's financial assets and financial liabilities by category are summarized in Note 23. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated with the BOD, and focuses on actively securing the Company's short-to-medium term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The relevant (i.e., interest rate risk is not significant) financial risks to which the Company is exposed to are discussed in the succeeding sections.

22.1 Market Risk

The Company is exposed to market risk through its use of financial instruments and specifically to currency risk, interest rate risk and certain other price risks which result from both its operating and investing activities.

(a) Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine Pesos, its functional currency. Exposures to currency exchange rates arise from the Company's brokering transactions and cash deposits denominated in foreign currency.

To mitigate the Company's exposure to foreign currency risk, non-Philippine Peso cash flows are monitored.

Foreign currency denominated financial assets and financial liabilities, translated into Philippine Pesos at the closing rate, are as follows:

	2020		2019	
	In U.S. Dollars	**In Philippine Pesos**	In U.S. Dollars	In Philippine Pesos
Financial assets:				
Cash in banks	**$ 163,366**	**P 7,845,339**	$ 67,018	P 3,400,761
Premiums receivable	**229,085**	**11,001,343**	296,652	15,053,309
	392,451	**18,846,682**	363,670	18,454,070
Financial liabilities –				
Due to insurance companies	**628,642**	**30,189,255**	258,099	13,096,976
Net exposure	**($ 236,191)**	**(P 11,342,573)**	$ 105,571	P 5,357,094

The sensitivity analysis of the net results for the years 2020 and 2019 arising from the Company's financial assets and financial liabilities and the U.S. dollar-Philippine Peso exchange rate assumes a +/-6.70% and +/-14.37% change, respectively, of the Philippine Peso/U.S. dollar exchange rates. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months of each year, estimated at 99% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held as of December 31, 2020 and 2019, with effects estimated from the beginning of each year.

If the Philippine Peso had strengthened against the U.S. dollar by 6.70% and 14.37% for 2020 and 2019, respectively, with all other variables held constant, the Company's profit before tax for the years ended December 31, 2020 and 2019 would have been higher by P759,952 and lower by P769,814, respectively. On the other hand, if the Philippine Peso had been weaker by the same percentage, with all other variables held constant, profit before tax for 2020 and 2019 would have been higher by the same amounts for those years.

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Company's exposure to foreign currency risk.

The Company's foreign currency denominated financial assets and financial liabilities resulted to an unrealized foreign currency exchange loss of P0.49 million and unrealized foreign currency exchange gain of P0.23 million in 2020 and 2019, respectively, and are reported as part of Finance Income - Net under Other Income (Charges) in the statements of comprehensive income (see Note 16.1).

(b) Interest Rate Risk

The Company is not exposed to changes in market interest rates of its bank placements, since these are subject to daily bank deposit rates and the effect of changes in the bank deposit rates are negligible. The Company' corporate bonds are subject to fixed interest rates. All other financial assets and financial liabilities also have fixed interest rates.

(c) Other Market Price Risk

The Company's market price risk arises from its investments classified as financial assets at FVTPL and FVOCI. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

The observed volatility rates of the fair values of the Company's investments held at fair value and their impact on the Company's comprehensive income before tax as of December 31, 2020 and 2019, are summarized as follows:

	Observed Volatility		**Impact on Comprehensive Income before Tax**	
	Increase	**Decrease**	**Increase**	**Decrease**
December 31, 2020				
Financial assets at FVOCI:				
Equity securities listed in the PSE	**+15.03%**	**-15.03%**	**P 6,487,654**	**(P 6,487,654)**
Club shares	**+10.38%**	**-10.38%**	**1,285,044**	**(1,285,044)**
Debt securities listed in the BVAL	**+3.03%**	**-3.03%**	**298,598**	**(298,598)**
Financial asset at FVTPL – UITF	**+6.26%**	**-6.26%**	**840,526**	**(840,526)**
			P 8,911,822	**(P 8,911,822)**
December 31, 2019				
Financial assets at FVOCI:				
Equity securities listed in the PSE	+4.47%	-4.47%	P 1,940,982	(P 1,940,982)
Club shares	+17.17%	-17.17%	2,462,178	(2,462,178)
Debt securities listed in the BVAL	+3.02%	-3.02%	308,456	(308,456)
Financial asset at FVTPL – UITF	+1.14%	-1.14%	159,896	(159,896)
			P 4,871,512	(P 4,871,512)

The investments in listed equity securities are considered long-term strategic investments.

22.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments arising from receivables to customers and placing deposits with banks.

The Company's exposure to credit risk is limited to the carrying amount of the financial assets recognized as of December 31 and is summarized below.

	Notes	**2020**	2019
Cash and cash equivalents	4	**P 109,255,028**	P 103,085,912
Restricted funds	11	**235,348,446**	166,314,877
Fees and other receivables	5	**255,658,232**	182,337,647
Financial assets at FVOCI	8	**9,854,704**	10,174,699
		P 610,116,410	P 461,913,135

None of the Company's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.50 million for every depositor per banking institution.

(b) Premium and Other Receivables

The Company applies the simplified approach in measuring ECL which uses a lifetime expected loss allowance for its Fees receivables and other receivables, except premium receivable.

To measure the expected credit losses, fees receivables and other receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The other receivables relate to receivables from both third and related parties other than fees receivables and have substantially the same risk characteristics as the fees receivables. The Company has therefore concluded that the expected loss rates for fees receivables are a reasonable approximation of the loss rates for the other assets.

The expected loss rates are based on the historical payment profiles of insurance premiums over a period of 36 months, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the Gross Domestic Product to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Company continuously monitors defaults of assured and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls.

With respect to Premiums receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics since this is for the account of the insurance companies.

Based on the management's assessment, the Company is not required to recognize any additional ECL during 2020 and 2019 since the outstanding allowance for impairment is adequate.

(c) Debt Securities

Debt securities measured at amortized cost and at FVOCI are considered to have low credit risk, and therefore, the loss allowance during the period is determined to be equivalent to 12 months ECL. Management considers "low credit risk" for listed bonds to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

22.3 Liquidity Risk

The Company sets limit on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover unexpected liabilities falling due.

As at December 31, the Company's financial liabilities with current contractual maturities are presented below.

	Notes		Within 6 Months		6 to 12 Months		More than 12 Months
December 31, 2020							
Due to insurance companies		P	117,124,999	P	132,394,502	P	-
Accounts payable, accrued expenses and other liabilities	12		47,462,864		17,565,641		-
Funds held in trust	14		-		-		235,348,446
		P	**164,587,863**	**P**	**149,960,143**	**P**	**235,348,446**
December 31, 2019							
Due to insurance companies		P	100,316,537	P	72,634,341	P	-
Accounts payable, accrued expenses and other liabilities (excluding tax liabilities)	12		49,511,707		38,793,528		-
Funds held in trust	14		-		-		166,314,877
		P	149,828,244	P	111,427,869	P	166,314,877

23. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

23.1 Carrying Values and Fair Values by Category

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

	Notes	2020 Carrying Values	2020 Fair Values	2019 Carrying Values	2019 Fair Values
Financial Assets					
Financial assets at amortized cost:					
Cash and cash equivalents	4	**P 109,255,028**	**P 109,255,028**	P 103,085,912	P 103,085,912
Restricted funds	11	**235,348,446**	**235,348,446**	166,314,877	166,314,877
Premium and other receivables - net	5	**255,658,232**	**255,658,232**	182,337,647	182,337,647
		600,261,706	**600,261,706**	451,738,436	451,738,436
Financial assets at FVTPL	6	**13,426,925**	**13,426,925**	14,025,940	14,025,940
Financial assets at FVOCI	8	**65,399,400**	**65,399,400**	67,937,116	67,937,116
		P 679,088,031	**P 679,088,031**	P 533,701,492	P 533,701,492
Financial Liabilities					
Financial liabilities at amortized cost:					
Due to insurance companies		**P 249,519,501**	**P 249,519,501**	P 172,950,878	P 172,950,878
Accounts payable, accrued expenses and other liabilities	12	**65,028,505**	**65,028,505**	88,305,235	88,305,235
Funds held in trust	14	**235,348,446**	**235,348,446**	166,314,877	166,314,877
		P 549,896,452	**P 549,896,452**	P 427,570,990	P 427,570,990

Management considers that the carrying amounts of financial assets at amortized cost, FVOCI and FVTPL and all financial liabilities which are measured at amortized cost approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those financial instruments with maturities of more than one year is not material.

See Notes 2.3 for the description of the accounting policies for each category of financial instruments. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 22.

23.2 Offsetting of Financial Assets and Financial Liabilities

The financial assets with gross amounts presented in the statements of financial position are covered by enforceable master netting arrangements and similar arrangements are presented below.

	Notes	Gross amounts recognized in the statements of financial position	Related amounts not set-off in the statements of financial position: Financial Instruments	Related amounts not set-off in the statements of financial position: Collateral received	Net amount
Premiums and other receivables - net	5				
December 31, 2020		**P 256,828,533**	**(P 420,844)**	**P -**	**P 256,407,689**
December 31, 2019		183,667,076	(215,355)	-	183,451,721
Restricted funds	11				
December 31, 2020		**235,348,446**	**(235,348,446)**	**-**	**-**
December 31, 2019		166,314,877	(166,314,877)	-	-

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

	Note	Gross amounts recognized in the statements of financial position	Related amounts not-set off in the statements of financial position		
			Financial Instruments	Collateral received	Net amount
Due to insurance companies					
December 31, 2020		**P 249,519,501**	**(P 420,844)**	**P -**	**P 249,098,657**
December 31, 2019		172,950,878	(215,355)	-	172,735,523
Funds held in trust	14				
December 31, 2020		**225,348,446**	**(225,348,446)**	**-**	**-**
December 31, 2019		166,314,877	(166,314,877)	-	-

The amount of financial liabilities not set-off represents payable to insurance companies. For financial assets and financial liabilities (i.e., claims receivables from insurance companies and premiums payable to insurance companies) subject to enforceable master netting agreements or similar arrangements, each agreement between the Company and its counterparty allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

24. FAIR VALUE MEASUREMENTS AND DISCLOSURES

24.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which does not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

24.2 Financial Instruments Measured at Fair Value

The table below and in the succeeding page shows the fair value hierarchy of the Company's classes of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2020 and 2019.

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Financial assets at FVOCI:				
Equity securities	P 43,164,696	P -	P -	P 43,164,696
Debt securities	9,854,704	-	-	9,854,704
Club shares	-	12,380,000	-	12,380,000
Financial assets at FVTPL – UITF	-	13,426,925	-	13,426,925
	P 53,019,400	**P 25,806,925**	**P -**	**P 78,826,325**
December 31, 2019				
Financial assets at FVOCI:				
Equity securities	P 43,422,417	P -	P -	P 43,422,417
Debt securities	10,174,699	-	-	10,174,699
Club shares	-	14,340,000	-	14,340,000
Financial assets at FVTPL – UITF	-	14,025,940	-	14,025,940
	P 53,597,116	P 28,365,940	P -	P 81,963,056

There were no financial liabilities measured at fair value as of December 31, 2020 and 2019. Moreover, there were neither transfers between Level 1 and Level 2 nor changes in Level 3 instruments in both years.

A significant portion of the Company's financial assets is composed of equity securities, debt securities and propriety club shares which are purchased locally with the intention to either trade for profit taking purposes or hold the assets for market speculation.

The fair value of those financial instruments are determined and disclosed on the following basis:

(a) Equity Securities

The fair values of listed equity securities shares were determined based on their market prices quoted in the stock exchange at the end of each reporting period; hence, included in Level 1.

(b) Debt Securities

The fair values of the Company's debt securities which consist of corporate bonds is estimated by reference to quoted bid price in active market (i.e., BVAL) at the end of the reporting period and is categorized within Level 1.

(c) Club Shares

Investments in proprietary club shares are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

(d) UITF

The Company's UITF included in Level 2 consist of Dollar Money Market Fund, which is offered by a private bank and managed by professional fund managers. The fair value of the UITF investments has been determined at the end of the reporting period based on the closing market and trade prices of the securities comprising the fund's portfolio adjusted for the period end performance of the funds including all trades made within the funds and the related income and expenses arising therefrom. Fair value is derived using the Net Asset Value per unit of the funds (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period) published by the bank.

The Company has no financial instruments with fair value measured and categorized within Level 3.

24.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Financial assets:				
Cash and cash equivalents	P 109,255,028	P -	P -	P 109,255,028
Restricted funds	235,348,446	-	-	235,348,446
Premiums and other receivables	-	-	255,658,232	255,658,232
	P 344,603,474	**P -**	**P 255,658,232**	**P 600,261,706**
Financial liabilities:				
Due to insurance companies	P -	P -	P 249,519,501	P 249,519,501
Accounts payable, accrued expenses and other liabilities	-	-	65,028,505	65,028,505
Funds held in trust	235,348,446	-	-	235,348,446
	P 235,348,446	**P -**	**P 314,548,006**	**P 549,896,452**
December 31, 2019				
Financial assets:				
Cash and cash equivalents	P 103,085,912	P -	P -	P 103,085,912
Restricted funds	166,314,877	-	-	166,314,877
Premiums and other receivables	-	-	182,337,647	182,337,647
	P 269,400,789	P -	P 182,337,647	P 451,738,436
Financial liabilities:				
Due to insurance companies	P -	P -	P 172,950,878	P 172,950,878
Accounts payable, accrued expenses and other liabilities	-	-	88,305,235	88,305,235
Funds held in trust	166,314,877	-	-	166,314,877
	P 166,314,877	P -	P 261,256,113	P 427,570,990

For the Company's financial assets and financial liabilities measured at amortized cost as at December 31, 2020 and 2019, management considers that the carrying amounts of these financial instruments are equal to or approximate their fair values.

24.4 Fair Value Disclosures for Investment Properties Carried at Cost

The total estimated fair values of the Company's land classified as investment properties amounted to P5.81 million and P4.59 million as of December 31, 2020 and 2019, respectively. The fair value of those properties as of December 31, 2020 and 2019 is categorized as Level 3 in the fair value hierarchy.

The fair value of the Company's investment properties held for undetermined future use and for capital appreciation was derived using the observable recent prices of the reference properties and were adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

There has been no change to the valuation technique during the year.

25. EVENTS AFTER THE END OF THE REPORTING PERIOD

On March 26, 2021, RA No. 11534, *Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Law)*, amending certain provisions of the National Internal Revenue Code of 1997, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Law that are relevant to the Company:

- RCIT rate is decreased from 30% to 25% starting July 1, 2020;
- MCIT rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023;
- the imposition of 10% tax on improperly accumulated retained earnings is repealed; and,
- the allowable deduction for interest expense is reduced by 20% (from 33%) of the interest income subjected to final tax.

Given that the CREATE Law was signed after the end of the current reporting period, the Company determined that this event is a non-adjusting subsequent event. Accordingly, its impact was not reflected in the Company's financial statements as of and for the year ended December 31, 2020, and instead, will be taken up prospectively in the next applicable reporting period. The Company used the prevailing tax rates as of December 31, 2020 in determining its current and deferred taxes in its 2020 financial statements.

As a result of the application of the RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable (or asset, in case of overpayment), as presented in the 2020 annual income tax return (ITR) of the Company, would be lower than the amount presented in the 2020 financial statements.

Presented below is the reconciliation of the impact of the application of CREATE Law between the Company's 2020 financial statements and 2020 annual ITR.

	Amount per 2020 Financial Statements	Impact of CREATE Law	Amount per 2020 ITR
RCIT	P 4,408,708	(P 367,392)	P 4,041,316
Creditable withholding taxes	(23,835,927)	(367,392)	(24,203,319)

In addition, the recognized net deferred tax assets as of December 31, 2020 would be remeasured to 25% in the 2021 financial statements. This will result in a decline in the recognized deferred tax asset in 2020 by P0.74 million and will be charged to 2021 profit or loss, unless it can be recognized in other comprehensive income as provided in applicable financial reporting standard.

26. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year which is required by the BIR under existing Revenue Regulation (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

26.1 Requirements under RR No. 15-2010

(a) Output VAT

In 2020, the Company declared output VAT amounting to P14.76 million based on the collections of brokerage commissions amounting to P122.98 million.

The outstanding output VAT payable amounted to P1.48 million, net of input VAT of P0.51 million as of December 31, 2020.

Pursuant to Section 108(B), *Zero-rated VAT on Sale of Service*, and Section 109, *VAT Exempt Transactions*, of the National Internal Revenue Code of 1997, the Company had no zero-rated and VAT exempt sales or receipts for 2020.

(b) Input VAT

The movements in input VAT for the year ended December 31, 2020 are summarized below.

Balance at beginning of year	P 6,601,665
Domestic purchases of services other than capital goods	1,152,120
Domestic purchases of goods other than capital goods	430,996
Capital goods not subject to amortization	391,863
Capital goods subject to amortization	128,190
Applied against current year output VAT	(4,125,305)
Balance at end of year	P 4,579,529

(c) Taxes on Importation

The Company did not have importations subject to customs duties and tariff fees during the year.

(d) Excise Tax

The Company did not have excise tax in 2020 since it did not have any transactions which were subject to excise tax.

(e) Documentary Stamp Tax (DST)

The Company did not have DST in 2020 since it did not have any transactions which were subject to DST.

(f) Taxes and Licenses

The details of Taxes and Licenses account, as presented under the Operating Expenses section of the 2020 statement of comprehensive income are broken down as follows:

Municipal license and permits	P	922,741
Real estate taxes		302,793
Car registration		101,902
Miscellaneous		131,134
	P	1,458,570

(g) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2020 are shown below.

Compensation and benefits	P	6,507,197
Expanded		391,370
	P	6,898,567

The Company has no income payments subject to final withholding taxes.

(h) Deficiency Tax Assessment and Tax Cases

The Company has a tax assessment case relating to deficiency VAT assessment with the BIR for the taxable year 2006 as fully discussed in Note 21.1. Pending resolution of the foregoing case, the Company voluntarily paid on November 29, 2016 the basic tax of P1.68 million, the 25% surcharge of P0.42 million and delinquency interest of P2.02 million or a total of P4.12 million to stop further accrual of interest.

The Company has no other final deficiency tax assessments with the BIR nor does it have other tax cases outstanding or pending in courts or bodies outside the BIR in any of the open taxable years.

26.2 Requirements under RR No. 34-2020

RR No. 34-2020 prescribes the guidelines and procedures on the submission of BIR Form No. 1709, transfer pricing documentation and other supporting documents for related party transactions. The Company is not covered by these requirements as the Company did not fall in any of the categories identified under Section 2 of RR No. 34-2020.