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Grant Thornton<sup>TM</sup>

Financial Statements and  
Independent Auditors' Report

**United Coconut Planters Life  
Assurance Corporation**

December 31, 2020 and 2019

## Report of Independent Auditors

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**The Board of Directors**  
**United Coconut Planters Life Assurance Corporation**  
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### Report on the Audit of the Financial Statements

#### *Qualified Opinion*

We have audited the financial statements of United Coconut Planters Life Assurance Corporation (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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Bases for Qualified Opinion* section of our report, 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).

#### *Bases for Qualified Opinion*

##### *Applicable to 2020 and 2019 Financial Statements*

##### *(a) Recoverability of Loans and Other Receivables*

As of December 31, 2020 and 2019, the Company has loans and other receivables (gross of allowance for impairment) amounting to P6.5 billion and P7.2 billion, respectively, while allowance for impairment amounted to P478.0 million and P422.7 million, respectively (see Note 11 to the financial statements). Included in this account are the following receivables:

##### *(i) Claims Receivables from Coconut Industry Investment Fund (CIIF) Oil Mills Farmers*

The Company, as previously being a major investor in CIIF, has been providing insurance claims to coconut farmers. Up until 2010, United Coconut Planters Bank (UCPB) Trust is the counterparty responsible in reimbursing the Company regarding the claims. Due to the ownership issue of UCPB, UCPB Trust's funds were restricted and placed in an escrow which stopped the quarterly payments of UCPB Trust during 2010. CIIF Oil Mills then became the one responsible for the reimbursement of the claims.

However, it was noted that there were no collections received from CIIF Oil Mills despite the fact that the Company continues to pay claims to the farmers. In addition, no additional claims were reimbursed to the Company during 2020 and 2019. The Company also discontinued the billing of interest related to the outstanding balances as management assessed that this interest will not be recovered.

As of December 31, 2020 and 2019, the outstanding balance of claims receivables, net of allowance for impairment, amounted to P448.5 million and P447.1 million, respectively. Since 2017, the Company provided for an allowance for impairment amounting to P24.5 million. In 2020, an additional P10.0 million allowance for impairment was recognized by the Company.

Given that the corresponding investment of the Company in CIIF Oil Mills has already been fully written-off in 2019, the recoverability of such claims receivables is considered to be remote, hence, should be provided with an adequate allowance for impairment. As of December 31, 2020, and 2019, claims receivables (gross of allowance for impairment) that has been outstanding for more than one year which amounted to P469.0 million and P430.7 million, respectively. However, the Company believes that such claims receivables' collectability is still subject to the final decision of the appropriate court on the pending legal case involving the ownership of CIIF.

*(ii) Other Long Outstanding Loans and Other Receivables*

There were loans and other receivables that have already been long outstanding but are not provided with adequate amount of allowance for impairment. As of December 31, 2020 and 2019, loans and other receivables, excluding claims receivables from CIIF Oil Mills farmers, that have been outstanding for more than one year amounted to P507.5 million and P423.4 million, respectively. Further, as a practice, the Company does not provide allowance for impairment to loans and other receivables with collaterals. However, appraisal valuations of such collaterals are not periodically performed; hence, it cannot be ascertain whether the recoverable values of the collaterals are still sufficient to cover the outstanding balances of the loans receivables.

We were unable to obtain sufficient appropriate audit evidence, particularly on the appropriateness of the judgment applied and the assumptions made by the Company's management in determining the recoverable amounts of such claims receivables from CIIF Oil Mills farmers and such other long outstanding loans and other receivables as of December 31, 2020 and 2019 in accordance with the impairment requirements of Philippine Accounting Standard (PAS) 39, Financial Instruments: Recognition and Measurement, because the information relevant to comply with such impairment requirements are not readily available from management. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

***(b) Impairment of Investment in a Subsidiary***

As disclosed in Note 14 to the financial statements, the Company has investments in Cocoplans, Inc. (Cocoplans) amounting to P283.9 million and P265.0 million (gross of allowance for impairment) as of December 31, 2020 and 2019, respectively, classified as part of the Investments in Subsidiaries and an Associate account with carrying amount of P1.2 billion and P943.9 million, respectively, as of those dates. As of December 31, 2019, the Company assessed that its investments in Cocoplans is partially impaired by P50.9 million. However, management adjusted retroactively this impairment loss against the opening balance of the Retained Earnings account as management believes that such investment was already impaired in prior years due to continuing losses of Cocoplans. In accordance with PAS 36, *Impairment of Assets*, an impairment loss shall be recognized in profit or loss in the period the impairment was assessed. Accordingly, the amount of impairment loss should have been charged to profit or loss in 2019. Had the Company recognized such impairment loss in profit or loss in 2019, the 2019 net profit should have been reduced by P50.9 million.

Considering the net loss incurred by Cocoplans in 2020, the carrying amount of the investment in Cocoplans is deemed to be impaired as of December 31, 2020. Consequently, an impairment loss should have been recognized in the Company's profit or loss for the year ended December 31, 2020. However, due to lack of information in establishing the recoverable amount of such investment, we were unable to obtain sufficient appropriate audit evidence. Consequently, we were unable to determine whether any adjustment to the amount of investment in Cocoplans was necessary.

***(c) Impairment of Available-for-sale (AFS) Financial Assets***

As of December 31, 2020, the Company's investment securities classified as AFS financial assets amounted to P8.2 billion as disclosed in Note 10 to the financial statements. Included in this account are equity investments, with a carrying amount of P579.3 million, which deem to have significant and prolonged declines in market prices since acquisition. PAS 39 provides that significant and prolonged decline in the fair value of an investment in an equity instrument below its cost is an objective evidence of impairment that needs to be recognized in profit or loss. However, the Company did not recognize any impairment as it believes such declines in fair values are only considered temporary due to the current economic condition. Due to a lack of formal impairment policy and assessment from management, particularly in defining significant and prolonged fair value declines as indicators of impairment, we were unable to obtain sufficient appropriate audit evidence. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

***Applicable to 2019 Financial Statements***

***(d) Recognition of Impairment Losses in the Proper Accounting Period***

In 2019, Company recognized impairment losses on the following accounts:

***(i) Investments in CIIF Oil Mills Companies and UCPB***

The Company has investments in CIIF Oil Mills Companies' and UCPB's common shares, which are carried as AFS financial assets measured at fair value and at cost, respectively, as disclosed in Note 10 to the financial statements. As of December 31, 2018, the carrying amount of the Company's investments in both CIIF Oil Mills Companies' and UCPB's common shares amounted to P6.3 billion. These investments were fully written off in 2019. In 2019, the Insurance Commission (IC) approved the Company's proposal to immediately write-off the investments in CIIF Oil Mills Companies' and UCPB's common shares; hence, the Company decided to write-off the remaining balance of its investments in such shares amounting to P6.3 billion. The Company charged this against the balances of the Deferred Tax Liabilities, Reserve for Fluctuation on AFS financial assets, and Retained Earnings accounts for the amount of P569.0 million, P5.1 billion, and P604.2 million, respectively. Such write-off made by the Company was presented and charged directly in equity (i.e., Retained Earnings) as a current transaction in the 2019 statement of changes in equity. The Company should have recognized and charged the write-off against the opening balance of the Retained Earnings as of the earliest period presented (i.e., as of January 1, 2019).

***(ii) Investments in Other Equity Investments***

The Company assessed that its investments in UCPB's preferred shares with a carrying amount of P100.0 million, as of December 31, 2019, are already impaired in light of the recent developments on the CIIF Oil Mills Companies and UCPB case. In addition, the Company assessed that various equity investments amounting to P1.0 billion are also impaired, due to the significant and prolonged decline of the market price of those shares. However, management adjusted retroactively these impairment losses against the opening balance of the Retained Earnings account as management believes that these investments were already impaired in prior years due to persistent fair value losses incurred from these investments.

In accordance with PAS 39, when a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from the Reserve for Fluctuation on AFS Financial Asset account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Accordingly, the amount of such impairment losses should have been charged in profit or loss in 2019 instead of directly charging it to the Retained Earnings account. Had the Company recognized such impairment losses in profit or loss in 2019, the 2019 net profit should have been reduced by P1.0 billion. Such impairment, however, has no impact on the total comprehensive income and total equity as of and for the year ended December 31, 2019.

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 qualified opinion.

#### ***Material Uncertainty Related to Going Concern***

The Company, as regulated by the IC, is required to comply with the minimum risk-based capital (RBC) ratio of 100% to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. Failure to meet the minimum RBC ratio shall subject the insurance company to corresponding regulatory intervention which has been defined at various levels. In line with this requirement, we draw attention to Note 5 to the financial statements, which indicates that the Company has not complied with the minimum RBC requirement of 100% of the IC as of December 31, 2020. While such noncompliance, together with the possible effects of the matters described in the *Bases for Qualified Opinion* section of our report to the Company's RBC ratio as of December 31, 2020, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern entity, a five-year regulatory leeway was granted by the IC to the Company, for it to build-up the Company's capital. Management's assessment of the Company's ability to continue as a going concern is disclosed in Note 3 to the financial statements, while management's plans to address such noncompliance are disclosed in Note 5 to the financial statements.

In connection with our audits, we have performed procedures to evaluate management's plans as to likelihood of improving the situation and as to the feasibility under the circumstances. Accordingly, the accompanying financial statements were prepared assuming that the Company will continue as a going concern entity, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

#### ***Emphasis of 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 about 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, 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 40 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; neither it is required by the Revised Securities Regulation Code Rule 68, of the Philippine Securities and Exchange Commission. 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: **Jerald M. Sanchez**  
Partner

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PTR No. 8533241, January 4, 2021, Makati City

SEC Group A Accreditation

Partner - No. 121830-SEC (until Dec. 31, 2023)

Firm - No. 0002 (until Dec. 31, 2024)

BIR AN 08-002551-041-2019 (until Dec. 15, 2022)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 26, 2021

**UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
<b><u>ASSETS</u></b>			
<b>CASH AND CASH EQUIVALENTS</b>	7	P 1,726,575,579	P 2,398,865,181
<b>INSURANCE RECEIVABLES - Net</b>	8	1,170,341,848	867,115,045
<b>TRADING AND INVESTMENT SECURITIES</b>			
Financial assets at fair value through profit or loss (FVPL)	9	5,227,298,429	3,258,571,304
Available-for-sale (AFS) financial assets	10	8,206,649,941	7,498,952,206
<b>LOANS AND OTHER RECEIVABLES - Net</b>	11	5,972,358,852	6,781,246,918
<b>ACCRUED INCOME - Net</b>	12	79,419,333	87,808,355
<b>REINSURANCE ASSETS</b>	13	9,888,699	5,392,594
<b>INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE - Net</b>	14	1,163,648,732	943,889,423
<b>REAL ESTATE INVENTORIES</b>	15	15,664,636	17,699,636
<b>INVESTMENT PROPERTIES - Net</b>	16	815,336,576	849,427,824
<b>PROPERTY AND EQUIPMENT - Net</b>	17	166,952,832	154,826,473
<b>INTANGIBLE ASSETS - Net</b>	19	44,150,541	40,873,251
<b>DEFERRED TAX ASSETS - Net</b>	33	199,174,059	206,114,668
<b>RIGHT-OF-USE ASSETS - Net</b>	18	41,319,072	64,082,142
<b>OTHER ASSETS - Net</b>	20	<u>478,826,332</u>	<u>519,637,559</u>
<b>TOTAL ASSETS</b>		<b><u>P 25,317,605,461</u></b>	<b><u>P 23,694,502,579</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>INSURANCE CONTRACT LIABILITIES</b>	21	P 18,909,601,315	P 16,825,220,234
<b>RESERVE FOR POLICYHOLDERS' DIVIDENDS</b>	22	207,893,565	197,463,689
<b>PREMIUM DEPOSIT FUNDS</b>	23	944,634,062	719,306,687
<b>INSURANCE PAYABLES</b>	24	38,762,216	40,620,165
<b>ACCOUNTS PAYABLE AND ACCRUED EXPENSES</b>	25	1,837,080,953	1,421,997,156
<b>NET PENSION LIABILITY</b>	32	89,965,613	130,064,209
<b>LEASE LIABILITIES</b>	18	43,942,885	66,131,547
<b>OTHER LIABILITIES</b>	25	<u>99,460,229</u>	<u>119,200,447</u>
Total Liabilities		<u>22,171,340,838</u>	<u>19,520,004,134</u>
<b>EQUITY</b>			
Capital stock	26	550,000,000	550,000,000
Contributed surplus	2	10,000,000	10,000,000
Reserve for fluctuation on AFS financial assets	2	( 22,451,354 )	107,844,792
Reserve for net pension liability	2	( 281,335,535 )	( 285,321,736 )
Reserve for life insurance policy	2	( 1,331,195,564 )	358,045,514
Retained earnings	26	<u>4,221,247,076</u>	<u>3,433,929,875</u>
Total Equity		<u>3,146,264,623</u>	<u>4,174,498,445</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 25,317,605,461</u></b>	<b><u>P 23,694,502,579</u></b>

*See Notes to Financial Statements.*



**UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*

	Notes	<u>2020</u>	<u>2019</u>
<b>NET INSURANCE PREMIUMS</b>	27		
Gross premiums on insurance contracts		P 6,477,692,303	P 7,072,986,370
Reinsurance premiums ceded		( 20,090,541 )	( 8,658,970 )
		<u>6,457,601,762</u>	<u>7,064,327,400</u>
<b>OTHER REVENUES</b>			
Investment income	28	1,073,547,576	1,401,474,959
Service fees	29	312,679,873	438,644,469
Other income	28	1,743,943,594	503,685,989
		<u>3,130,171,043</u>	<u>2,343,805,417</u>
<b>NET INSURANCE BENEFITS AND CLAIMS</b>	30		
Gross benefits and claims		3,601,495,571	4,467,371,295
Gross change in insurance contract liabilities		75,212,251	1,032,696,831
Reinsurers' share on benefits and claims		( 3,110,170 )	-
Reinsurers' share of gross change in insurance contract liabilities		( 1,635,936 )	38,546
		<u>3,671,961,716</u>	<u>5,500,106,672</u>
<b>OPERATING AND ADMINISTRATIVE EXPENSES</b>			
General and administrative expenses	31	1,986,605,926	1,925,722,067
Expenses from variable life funds		1,784,804,825	-
Commissions		588,646,329	681,472,375
Investment expenses	28	226,950,873	265,118,437
Premium refund		131,948,388	23,910,825
Insurance taxes		118,831,206	130,544,427
Policyholders' dividends		47,672,184	49,976,354
Increase in loading and cost of collection	2	32,850,095	12,130,336
Foreign exchange losses - net		6,905,009	5,390,073
		<u>4,925,214,835</u>	<u>3,094,264,894</u>
<b>PROFIT BEFORE TAX</b>		990,596,254	813,761,251
<b>TAX EXPENSE</b>	33	203,279,053	92,945,821
<b>NET PROFIT</b>		<u>787,317,201</u>	<u>720,815,430</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurement of life insurance policy reserves	2	( 1,689,241,078 )	( 887,600,924 )
Remeasurement of net pension liability	32	5,694,573.00	( 119,590,292 )
Income tax effect	33	( 1,708,372 )	35,877,088
		<u>( 1,685,254,877 )</u>	<u>( 971,314,128 )</u>
<b>Items that will be reclassified subsequently to profit or loss</b>			
Fair value gains (losses) on AFS financial assets	10	( 130,296,146 )	1,169,188,849
Fair value losses related to impairment of AFS financial assets	10	-	( 5,700,098,399 )
Income tax effect	33	-	569,040,696
		<u>( 130,296,146 )</u>	<u>( 3,961,868,854 )</u>
<b>Other Comprehensive Loss - Net of Tax</b>		<u>( 1,815,551,023 )</u>	<u>( 4,933,182,982 )</u>
<b>TOTAL COMPREHENSIVE LOSS</b>		<u>( P 1,028,233,822 )</u>	<u>( P 4,212,367,552 )</u>

*See Notes to Financial Statements.*



**UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*

	Notes	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		P 990,596,254	P 813,761,251
Adjustments for:			
Interest income	28	( 799,961,102 )	( 1,009,927,703 )
Gain on sale of AFS financial assets	28	( 159,917,868 )	( 159,082,792 )
Depreciation and amortization	31	91,404,929	86,575,492
Dividend income	28	( 79,775,771 )	( 109,752,584 )
Impairment losses	31	55,882,040	14,423,571
Unrealized fair value losses (gains) on financial assets at FVPL	28	14,686,895	( 84,192,762 )
Gain on sale of financial assets at FVPL	28	( 8,260,299 )	( 82,159 )
Gain on sale of investment properties	28	( 8,011,249 )	( 8,634,227 )
Unrealized foreign exchange gains - net	9, 10, 24	6,905,009	5,390,073
Gain on sale of real estate inventories	15, 28	( 1,977,893 )	( 2,909,714 )
Gain on sale of property and equipment	17, 28	( 194,920 )	( 997,997 )
Operating income (loss) before changes in assets and liabilities		101,376,025	( 455,429,551 )
Increase in insurance receivables		( 285,112,818 )	( 147,331,039 )
Decrease in loans and other receivables		753,006,026	160,996,970
Decrease (increase) in reinsurance assets		( 4,496,105 )	14,233,828
Increase in other assets		( 82,221,760 )	( 498,421,949 )
Increase in insurance contract liabilities		395,140,003	1,293,844,072
Increase in reserve for policyholders' dividends		10,429,876	5,739,121
Increase in premium deposit funds		225,327,375	72,892,787
Decrease in insurance payables		( 1,885,984 )	( 33,510,135 )
Increase (decrease) in accounts payable and accrued expenses		415,083,797	( 101,586,271 )
Decrease in net pension liability		( 36,112,395 )	( 52,980,635 )
Decrease in other liabilities		( 22,176,563 )	( 322,929,601 )
Cash generated from (used in) operations		1,468,357,477	( 64,482,403 )
Cash paid for income taxes		( 67,004,188 )	( 59,433,913 )
Net Cash From (Used in) Operating Activities		<u>1,401,353,289</u>	<u>( 123,916,316 )</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of:			
AFS financial assets	10	( 3,915,032,894 )	( 7,140,194,629 )
Financial assets at FVPL	9	( 3,309,037,087 )	( 1,713,221,055 )
Investment in subsidiaries	14	( 219,759,309 )	( 65,373,594 )
Property and equipment	17	( 62,895,035 )	( 93,843,727 )
Investment properties	16	( 16,974,887 )	( 57,519,905 )
Intangible assets	19	( 14,354,023 )	( 37,403,488 )
Proceeds from sale/maturities of:			
AFS financial assets	10	3,228,862,934	5,695,520,758
Financial assets at FVPL	9	1,316,986,354	1,989,687,214
Investment properties	16	43,860,745	74,559,516
Property and equipment	17	15,935,099	22,654,152
Real estate inventories	15	4,012,893	5,291,214
Interest received		799,961,102	1,009,927,703
Dividends received		79,775,771	109,752,584
Net Cash Used in Investing Activities		<u>( 2,048,658,337 )</u>	<u>( 200,163,257 )</u>
<b>CASH USED IN A FINANCING ACTIVITY</b>			
Repayment of lease liabilities	18	( 24,984,554 )	( 35,361,363 )
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
		( 672,289,602 )	( 359,440,936 )
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
		<u>2,398,865,181</u>	<u>2,758,306,117</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		<u>P 1,726,575,579</u>	<u>P 2,398,865,181</u>

**Supplemental Information on Non-cash Activity:**

1. In 2019, the Company decided to fully write-off the remaining investments in Coconut Industry Investment Fund (CIIF) Oil Mills Companies and UCPB amounting to P6.3 billion. The Company adjusted this against the balance of deferred tax liabilities, reserve for fluctuation of AFS financial assets and directly to retained earnings amounting to P569.0 million, P5.1 billion and P604.2 million, respectively (see Note 10).

2. In 2020 and 2019, the Company recognized right-of-use assets amounting to P54.76 million and P7.97 million, respectively, with corresponding lease liabilities of the same amount each year in the statement of financial position (see Note 18).

*See Notes to Financial Statements.*

**UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

***1.1 Incorporation and Operations***

United Coconut Planters Life Assurance Corporation (the Company) was incorporated on February 16, 1966 and is domiciled in the Republic of the Philippines. The Company was formed to undertake life insurance business, including accident and health insurance; to write insurance contracts providing for all risks, hazards, guarantees and contingencies to which life, accident or health insurance is applicable; to grant endowment and annuities; to issue insurance policies providing for participation or nonparticipation of profits; to reinsure all or part of the risks underwritten by the Company; to undertake all kinds of reinsurance to the extent allowed by law; and, to act as agent or general agent of another insurance company.

The Company is wholly-owned by various Filipino individuals.

The Company has a Certificate of Authority No. 2019/88R issued by the Insurance Commission (IC) to transact in life insurance business until December 31, 2021.

The Company's registered office address, which is also its principal place of business, is at Cocolife Building, 6807 Ayala Avenue, Makati City.

As of December 31, 2020, the Company's subsidiaries and an associate (all incorporated in the Philippines), effective percentage of ownership and the nature of the subsidiaries' businesses follow:

<u>Company Name</u>	<u>Explanatory Notes</u>	<u>Percentage of Ownership</u>
Subsidiaries:		
UCPB General Insurance Company, Inc. (Cocogen)	(a)	100%
Cocoplans, Inc. (Cocoplans)	(b)	100%
Ultra Security Services, Inc. (Ultra)	(c)	100%
Cocolife Asset Management Company, Inc. (CAMCI)	(d)	100%
Healthassist, Inc. (Healthassist)	(e)	100%
Associate –		
Direct Link Insurance Agency, Inc. (Direct Link)		45%

Other relevant information about the subsidiaries' nature of businesses and their status of operations are discussed below.

- (a) Cocogen is engaged in the business of non-life insurance. The registered office address of Cocogen is located at 22<sup>nd</sup> Floor, One Corporate Center Condominium, Dona Julia Vargas Avenue, corner Meralco Avenue, Ortigas Center, San Antonio, Pasig City.
- (b) Cocoplans is engaged in pre-need business. The registered office address of Cocoplans is located at Cocolife Building, 6807 Ayala Avenue, Makati City.
- (c) Ultra is engaged in providing security services. The registered office address of Ultra is located at F-48 Palm Tower Condominium, 7706 St. Paul Road, San Antonio Village, Makati City.
- (d) CAMCI is mainly engaged in providing investment advice to customers. CAMCI's registered office address and principal place of business is located at Cocolife Building, 6807 Ayala Avenue, Makati City.
- (e) Healthassist provides total and integrated healthcare services, benefits management, technical and advisory services, and conducts special studies, seminars and other projects in healthcare. Healthassist's registered office address and principal place of business is located at 2<sup>nd</sup> Floor, Cocolife Building, 6807 Ayala Avenue, Makati City.

## **1.2 Impact of COVID-19 to the Company's Operations**

The unprecedented impact of the COVID-19 pandemic and the government's stringent mobility/quarantine measures to contain the virus have affected economic conditions and consequently, the Company's business operations in terms of the following:

- decline in net insurance premium and net insurance benefits and claims by 9% and 33%, respectively compared to that of 2019;
- some mall sites were closed due restrictions as brought by the imposition of community quarantines;
- limited sales activity for businesses requiring face-to-face interaction due to social distancing;
- additional administrative expenses incurred to ensure health and safety of the Company employees and client such as the frequent disinfection of facilities and COVID-19 testing for its employees; and,
- business units operating at less than full capacity as employees were unable to report for work.

The following were the actions undertaken by the Company's business to mitigate such impact:

- continuous effort of the Company's Marketing Department on attracting more clients;
- performed review of loan and investments accounts to assess vulnerable sectors;
- complied with Republic Act (R.A) No. 11469, *Bayaniban to Heal as One Act (Bayaniban I)* and R.A No. 11494, *Bayaniban to Recover as One Act (Bayaniban II)* by granting loan and premium moratoria to qualified clients under the said laws;

- implemented new occupational safety and health standards to provide a safe and sanitized environment for employees through the strict observance of health and safety protocols, retrofitting of workspaces, and periodic testing for employees to minimize infection within the workplace; and,
- implemented various cost-cutting measures to mitigate the impact of reduced revenues.

Based on the above actions and measures taken by management to mitigate the adverse effect of the pandemic, the Company believe that it would continue to report positive results of operations 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 related to the pandemic.

### ***1.3 Approval of Financial Statements***

The financial statements of the Company as of and for the year ended December 31, 2020 (including the comparative financial statements as of the and for the year ended December 31, 2019) were authorized for issue by the Company's Board of Directors (BOD) on March 26, 2021.

## **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 Standards (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income and expenses 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 have 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 PFRS, 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 3 (Amendments)	:	Business Combinations – Definition of a Business
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

Discussed below and in the succeeding page 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 3 (Amendments), *Business Combinations – Definition of a Business*. The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. Also, the amendments will likely result in more acquisitions being accounted for as asset acquisitions. The application of these amendments had no significant impact on the Company’s financial statements.
- (iv) 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.

(b) *Effective Subsequent to 2020 but not Adopted Early*

There are amendments and annual improvements to existing standards 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 provision.

- (i) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaces PAS 39, *Financial Instruments* and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e. financial asset at amortized costs, fair value through profit or loss (FVPL), and fair value through other comprehensive income (FVOCI);
  - an expected credit loss model in determining impairment of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,



- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management exercised the second option provided by PFRS 4, *Insurance Contracts* (Amendments) effectively deferring the application of PFRS 9 (2014) to periods beyond January 1, 2018. Consequently, the Company continued to apply the existing financial instrument requirements of PAS 39.

- (ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the “solely payments of principal and interests” test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. These amendments are expected to have no significant impact in the financial statements since the Company still applies the existing financial requirements of PAS 39.
- (iii) PAS 1 (Amendments), *Presentation of Financial Statements*, and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). 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 is expected to have no significant impact on the Company's financial statements.

- (iv) 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. The application of these amendments is expected to have no significant impact on the Company's financial statements.
- (v) 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. The application of these amendments is expected to have no significant impact on the Company's financial statements.
- (vi) 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). The application of these amendments is expected to have no significant impact on the Company's financial statements.
- (vii) 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 that 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. The application of this amendment is expected to have no significant impact on the Company's financial statements.
  - Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The improvement merely removes potential for confusion regarding lease incentives. The application of this amendment is expected to have no significant impact on the Company's financial statements.
- (viii) 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. The application of these amendments is expected to have no significant impact on the Company's financial statements.

- (ix) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. The application of these amendments is expected to have no significant impact on the Company's financial statements.
- (x) PFRS 17, *Insurance Contracts* (effective from January 1, 2023). This new standard will eventually replace PFRS 4, *Insurance Contracts*. The IC, through its Circular Letter (CL) 2018-69, has deferred the implementation of PFRS 17 for life insurance and non-life insurance industry. PFRS 17 will set out the principles for the recognition, measurement, presentation and disclosure of insurance contracts within its scope.

This new standard requires a current measurement model where estimates are remeasured in each reporting period. Moreover, contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and,
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

In addition, the standard provides an optional, simplified premium allocation approach for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

A modification of the general measurement model called the variable fee approach is also introduced by PFRS 17 for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

In preparation for the adoption of PFRS 17, the following activities have been taken by the Company:

- complete selection of members of the PFRS 17 technical working group;
- sourcing of past actuarial models and assumptions for preparation of expected cashflows for retrospective transition approaches;

- initial model enhancements for Traditional Life and Variable Life businesses to close possible future model gaps and eliminate dependence on off-system adjustments; and,
- initial enhancement of assumption methodology to be more consistent with PFRS 17 requirements.

### ***2.3 Separate Financial Statements and Investments in Subsidiaries and an Associate***

These financial statements are prepared as the Company's separate financial statements. The Company also presents consolidated financial statements as required under PFRS.

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity.

The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above.

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture.

The Company's investments in subsidiaries and an associate are accounted for in these separate financial statements at cost, less any impairment loss (see Notes 2.15 and 2.24).

### ***2.4 Insurance Contracts***

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is significantly greater than the benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variables, provided in the case of non-financial variable that the variable is not specific to a party to the contract.

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

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

- likely to be a significant portion of the total contractual benefits;
- which amount or timing is contractually at the discretion of the issuer; and,

- contractually based on the following:
  - performance of a specified pool of contracts or a specified type of contract; or,
  - realized or unrealized investment returns on a specified pool of assets held by the issuer; or,
  - the profit or loss of the Company, fund or other entity that issues the contract.

The additional benefits include policy dividends that are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under Policyholders' Dividends account in profit or loss with the corresponding liability recognized under the Reserve for Policyholders' Dividends account in the statement of financial position (see Note 2.7).

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative itself is an insurance contract or when the host insurance contract itself is measured at FVPL. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payments on the contract to units of an internal investment fund meets the definition of an insurance contract and is not, therefore, accounted for separately from the host insurance contract.

## ***2.5 Reinsurance Contracts Held***

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its insurance contracts held are recognized as Reinsurance Assets in the statement of financial position. These assets consist of short-term balances due from reinsurers, as well as long-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Liabilities arising from these contracts are primarily premiums payable and are recognized as an expense when due. These liabilities are presented under Insurance Payables account in the statement of financial position.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence as a result of an event that occurred after initial recognition that the Company may not recover the outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. Any impairment loss determined is recognized in profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to the policyholders.

The Company also assumes reinsurance risk in the normal course of its business. Premiums and claims on assumed reinsurance are recognized as income and expense in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The liabilities arising from these contracts are primarily claims and benefits payables and estimated in a manner consistent with the associated reinsurance contracts. These liabilities are presented under Insurance Payables account in the statement of financial position.

Gains or losses on buying reinsurance, if any, are recognized in profit or loss immediately at the date of purchase and are not amortized.

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

Assets or liabilities from these contracts are derecognized when the contractual right is extinguished or expired or when the contract is transferred to another party.

## **2.6 Insurance Contract Liabilities**

- (a) *Legal Policy Reserves* – Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. These are determined by the Company's actuary in accordance with the requirements of the amended Insurance Code (the Insurance Code) and are calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend in the operation of each life insurance product. These reserves represent the amounts which, together with future premiums and investment income, are required to discharge the obligations of the insurance contracts and to pay expenses related to the administration of those contracts. These reserves are determined using generally accepted actuarial practices and have been approved by the IC at the product approval stage.

Gross premium valuation (GPV) is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate provided by the IC. For this purpose, the expected future cash flows shall be determined using the best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation (MfAD) from the expected experience. The methods and assumptions shall be in accordance with the internationally accepted actuarial standards and consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines, which now considers other assumptions such as morbidity, lapse and/or persistency, non-guaranteed benefits and MfAD.

The changes in legal policy reserves for traditional life insurance policies are recognized as follow:

- (i) the increase or decrease in legal policy reserves in the current year due to other assumptions excluding change in discount rate will be recognized to profit or loss; and,
- (ii) remeasurement on life insurance reserves due to changes in discount rates will be recognized in other comprehensive income (see Note 2.20).

- (b) *Insurance Contracts with Fixed and Guaranteed Terms* – A liability for contractual benefit expected to be incurred in the future is recorded when premiums are recognized. The liability is determined as the sum of the present value of future benefits and expenses less the present value of future gross premiums discounted at rates prescribed by the IC. Future cashflows are determined using best estimate assumptions with due regard to significant recent experience and appropriate MfAD from the expected experience.

The Company has different assumptions for different products. However, the reserves are computed to comply with the statutory requirements, wherein discount rates are based on risk-free discount rates and other assumptions such as mortality, disability, lapse, and expenses taken into account the Company's experience.

- (c) *Unit-linked Insurance Contracts* – A unit-linked insurance contract is an insurance contract linking payments to units of an internal investment fund set up by the Company with the consideration received from the policyholders. The investment funds supporting the linked policies are maintained in segregated accounts in conformity with Philippine laws and regulations. The liability for such contracts is the higher amount between the policyholder's investment fund balance and the minimum guaranteed amount stated in the policy contract. Revenue from unit-linked insurance contracts consists of premiums received and policy administration fees.

The reserve for unit-linked liabilities is increased by additional deposits and changes in unit prices and decreased by policy administration fees, fund charges, mortality and surrender charges and any withdrawals. As at the reporting date, this reserve is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds.

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

## **2.7 Reserve for Policyholders' Dividends**

DPF is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from participating business. These returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the contract.

For group commercial and farmers' lines, the Company sets up the policyholders' dividends due and accrued for all groups which have participating feature based on the agreed experience refund formula and an assessment of each individual group's prospective cash flows and operating results. For individual policyholders, all dividends due and accrued are carried for participating policies using an estimated dividend scale expected to be declared based on the Company's profit emergence for the individual line.

## **2.8 Insurance Receivables and Payables**

Receivables and payables are recognized when due. Insurance receivables and payables include amounts due from agents and policyholders and amounts due to reinsurers. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes the impairment loss in profit or loss.

## **2.9 Premium Deposit Funds (PDF)**

PDF represents fund which will be used for payment of any unpaid premiums under the policy. The fund earns interest of 6.00% and 3.00% per annum for old PDF and new PDF, respectively, which is credited to the fund. The accumulated fund shall not exceed the total future premium payments under the policy.

The PDF includes Fund Builder Rider which represents fund used to pay future premiums of the policy. This has peso and dollar fund where the interest on the fund shall be based on the interest rate prevailing in the market.

## **2.10 Financial Assets**

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. 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.

### **(a) Classification, Measurement and Reclassification of Financial Assets**

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets, except for equity securities, are recognized on their settlement date. Equity securities are recognized on trade date – the date that the Company becomes a party to the contractual provisions of the instrument. Trade date accounting refers to: (a) the recognition of an asset to be received and the liability to pay for it on the trade date; and, (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

All financial assets that are not classified as at FVPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the financial assets applicable to the Company is discussed in the succeeding pages.



(i) *Financial Assets at FVPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at FVPL upon initial recognition. Financial assets are allowed to be designated by management on initial recognition in this category when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or,
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or,
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or, it is clear, with little or no analysis, that it would not be bifurcated.

All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVPL) may be reclassified out of FVPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Insurance Receivables, Loans and Other Receivables, Accrued Income, Reinsurance Assets, and Lease and leasehold deposits and Refundable deposits (under Other Assets account) in the statement of financial position.

Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(iii) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS financial assets include equity securities, corporate and government debt securities.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as Reserve for Fluctuation on AFS Financial Assets account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(b) *Impairment of Financial Assets*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Company recognizes impairment loss based on the category of financial assets as shown below and in the succeeding page.

(i) *Carried at Amortized Cost – Loans and Receivables*

If there is objective evidence that an impairment loss on loans and receivables carried at cost has been incurred, the amount of the impairment loss is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate (EIR) determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the profit or loss.

(ii) *Carried at Cost – AFS Financial Assets*

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

*(iii) Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Reserve for fluctuation on AFS financial asset account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that is debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

*(c) Items of Income and Expense Related to Financial Assets*

All income and expenses, except for impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Investment Income or Investment Expenses account in the statement of comprehensive income. Impairment losses are presented as part of General and Administrative Expenses account in the statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

*(d) 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.

## ***2.11 Property and Equipment***

Property and equipment, except for land, are carried at acquisition cost less accumulated depreciation and amortization, and any impairment in value. Land is carried 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 a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Buildings	10 years
Transportation equipment	5 years
Office furniture, fixtures and equipment	5 years

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements of five to ten years, whichever is shorter.

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 2.24).

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

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use, at which time, the cost and the related accumulated depreciation and amortization are written off.

An item of property and equipment, including the related accumulated depreciation, amortization and 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.

### ***2.12 Real Estate Inventories***

Real estate inventories consist of columbarium units. These are carried at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost includes acquisition costs of columbarium units and those costs incurred for the development and improvement of the properties.

### ***2.13 Investment Properties***

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at acquisition cost which comprise its purchase price and directly attributable cost incurred. These include parcels of land, and buildings and related improvements acquired by the Company which are not held for sale in the next 12 months. Subsequently, investment properties are accounted for using the cost model. Except for land, investment properties are carried at cost less accumulated depreciation and impairment in value.

Depreciation is computed using the straight-line method over its estimated useful life of 20 years.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner occupancy, commencement of an operating lease to another party or ending of construction or development.

Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupancy or commencement of development with a view to sell.

Investment properties 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 an investment property is recognized in profit or loss in the year of retirement or disposal.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

#### ***2.14 Intangible Assets***

Intangible assets pertain to the Company's computer software. Costs incurred to acquire computer software (not an integral part of its related hardware) and bring it to its intended use are capitalized. These costs are amortized over their estimated useful lives ranging from three to five years. Cost directly associated with the development of identifiable computer software that generate expected future benefits to the Company are recognized. All other costs of developing and maintaining computer software are recognized as expense when incurred.

Gains or losses arising from the derecognition of the computer software are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

#### ***2.15 Investments in Subsidiaries and an Associate***

A subsidiary is an entity over which the Company has control. There is control when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect returns through its power over the entity.

Following the provisions of PAS 27, *Separate Financial Statements*, on the preparation of separate financial statements, investments in subsidiaries are accounted for at cost, less any impairment in value. The Company recognizes income from the investments in subsidiaries and an associate only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a return of investment and are recognized as a reduction from the cost of the investment.

An associate, on the other hand, pertains to an entity over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. If the holding is less than 20%, the entity will be presumed not to have significant influence unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence. The Company's investment in an associate is measured at cost, less any impairment in value. Dividend income from the associate is recognized when declared from the accumulated profits of the investee.

Cost of investments in subsidiaries and associate includes the purchase price and other costs directly attributable to the acquisition of the investment such as professional fees for legal services, transfer taxes and other transaction costs. This includes any excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary or an associate at the date of acquisition.

Investments in subsidiaries and an associate are derecognized upon sale or loss of control or influence over the subsidiaries or an associate. Any gain or loss arising from derecognition is recognized in profit or loss. Gain or loss is computed as the difference between the proceeds from the disposal and its carrying amount at the date of disposal.

### ***2.16 Other Assets***

Other assets pertain to assets controlled by the Company as a result of past events. These are recognized 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.

### ***2.17 Financial Liabilities***

Financial liabilities, which include Policy and contract claims (under Insurance Contract Liabilities account), Reserve for Policyholders' Dividends, Premium Deposit Funds, Insurance Payables, Accounts Payable and Accrued Expenses, and Other Liabilities (except tax-related payables), are recognized when the Company becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of comprehensive income under the caption Investment Expenses.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

### ***2.18 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 there is a 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.

## ***2.19 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 (e.g., legal dispute or onerous contracts).

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. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of 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 assessment 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 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.

## ***2.20 Equity***

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

Contributed surplus pertains to additional cash contribution by the Company's stockholders, which will be converted to capital stock, to provide an adequate capital in accordance with the requirement of the IC.

Reserve for fluctuation of AFS financial assets pertains to cumulative mark-to-market valuation of outstanding AFS financial assets.

Reserve for net pension liability refers to accumulated actuarial losses, net of gains, as a result of remeasurements of post-employment defined benefit plan and return on plan assets (excluding amount included in net interest).

Reserve for life insurance policy pertains to the remeasurement of the legal policy reserve attributable to the impact of changes in the discount rates used in the valuation of legal policy reserves applying the GPV methodology [see Note 2.6(a)].

Unappropriated retained earnings include all current and prior period results as reported in the profit or loss section of statement of comprehensive income and which are available and not restricted for use by the Company, reduced by the amounts of dividend declared, if any.

Appropriated retained earnings is equivalent to the negative legal policy reserves calculated on traditional life insurance policies applying the GPV methodology as mandated by IC through its issuance of CL No. 2016-66, *Valuation Standards for Life Insurance Reserves*.

## **2.21 Revenue and Cost Recognition**

Revenue is recognized only when (or as) the Company satisfied a performance obligation by transferring control of the promised services to the customer. Expenses and costs, if any, are recognized in the statement of income upon utilization of the resources or services or at the date these are incurred. All finance costs are reported on an accrual basis.

The Company's significant revenues pertain to net insurance premium and investment income (loss) which are accounted for by the Company in accordance with PFRS 4 and PAS 39, respectively. The following provides information about the specific recognition criteria of revenues recognized in accordance with PFRS 4 and PAS 39:

- (a) *Net Insurance Premium* – recognized as gross premium on insurance contracts less reinsurance premiums ceded.

*Gross Premiums on Insurance Contracts.* Premiums arising from insurance contracts are initially recognized as income on the effective date of the insurance policies. Subsequent to initial recognition, gross earned premiums on life insurance contracts are recognized as revenue at the date when payments are due.

*Reinsurance Premiums Ceded.* Gross reinsurance premiums on traditional and variable contracts are recognized as an expense when the policy becomes effective.

- (b) *Investment Income* – The Company's investment income is comprised of interest income, fair value gain (loss) of financial assets at FVPL, dividend income, rental income, gain (loss) on sale of financial assets at FVPL, AFS financial assets, loans and other receivable, and gain (loss) on sale of real estate inventories, noncurrent assets held-for-sale and other non-financial assets.

*Interest Income.* Interest income arising from loans and other receivables, AFS financial assets, cash and cash equivalents, and financial assets at FVPL are recognized on an accrual basis using the effective interest method. The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset. The EIR is established on initial recognition of the financial asset and is not revised subsequently. When the related financial asset becomes impaired, the recognition of interest income is suspended and/or limited up to the extent of cash collections received.

The calculation of the EIR includes all fees, transaction costs, and discounts or premiums that are an integral part of the EIR. Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset.

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



*Dividend Income.* Dividend income is recognized when the shareholder's right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

*Rental Income.* Rental income from investment properties is recognized on a straight-line basis over the lease term.

*Gain (Loss) on Sale of Financial Assets at FVPL.* Gain (loss) on sale of financial assets at FVPL is calculated as the difference between net sales proceeds and the current fair value at the date of sale. Gain (loss) on the sale of financial assets at FVPL is recognized in profit or loss when the sale transaction occurred.

*Fair Value Gain (Loss) on Financial Assets at FVPL.* Fair value gains and losses from the changes in the market values of financial assets at FVPL are recognized in profit or loss at the end of the reporting period.

*Gain (Loss) on Sale of AFS Financial Assets.* Gain (loss) on the sale of AFS financial assets is calculated as the difference between net sales proceeds and acquisition cost less any impairment in value. Gain (loss) on the sale of AFS financial assets is recognized in profit or loss when the sale transaction occurred.

*Gain (Loss) on Sale of Loans and Other Receivables.* Gain (loss) on sale of loans and receivables is calculated as the difference between the net sales proceeds and amortized cost. Gain (loss) on sale of loans and other receivables is recognized in profit or loss when the sales transaction occurred.

*Gain (Loss) on Sale of Real Estate Inventories.* Revenue from the sale of real estate inventory is measured at the fair value of the consideration received or receivable less the cost of real estate inventory at the date of sale. Revenues from transactions covering sale of real estate inventories are recognized under the full accrual method. Under this method, the Company recognizes the revenue and cost from sale of real estate in full when 10% or more of the contract price is received at which point the buyer has already an equity over the real estate asset and may already occupy and use the property.

The collections relating to sale of real estate inventories which do not meet the collection threshold or full accrual recognition criteria is presented as Others as part of Other liabilities account in the statement of financial position.

- (c) *Service Fees* – Insurance contracts of the policyholders are charged for policy administration services, surrenders and other contract fees. Fees such as withdrawal fee, cancellation fee and policy fee are recognized at point in time.
- (d) *Other Income* – Income from other sources is recognized when earned.

The Company also earns other income from reinstatement fees, which is recognized as income once the Company performed the service. These are accounted for by the Company in accordance with PFRS 15, *Revenue from Contracts with Customers*.

- (e) *Net Insurance Benefits and Claims* – The Company's net benefits and claims consist of gross benefits and claims, reinsurers' share on benefits and claims, gross change in insurance contract liabilities and reinsurers' share on gross change in insurance contract liabilities.

*Gross Benefits and Claims.* Gross benefits and claims of the policyholders include excess benefit claims for unit-linked contracts. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

*Reinsurers' Share on Benefits and Claims.* Reinsurers' share on benefits and claims pertain to the amount recoverable from reinsurers for recognized claims during the year. These are accounted for when the corresponding claims are recognized.

*Gross Change in Insurance Contract Liabilities.* Gross change in insurance contract liabilities represents the change in the valuation of legal policy reserves under Insurance Contract Liabilities account in the statement of financial position.

*Reinsurers' Share on Gross Change in Insurance Contract Liabilities.* Reinsurers' share on gross change in insurance contract liabilities pertain to the reinsurers' share in the change of legal policy reserves. These are accounted for in the same period as the corresponding change in insurance contract liabilities.

- (f) *Operating and Administrative Expenses* – Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

*General and Administrative Expenses.* General and administrative expenses, underwriting expenses and other investment expenses, except for lease agreements, are recognized as expense as they are incurred.

*Commissions.* Commissions are recognized when the insurance contracts are entered into and the related premiums are recognized.

*Investment expenses.* Investment expenses pertain to the interest incurred by the Company in relation to the funds received intended for the Company's loan financing facility which is recorded as investment accounts payable under Accounts Payable and Accrued Expenses account in the statement of financial position. These are accounted for over the term of the underlying investment accounts payable (see Note 28).

*Premium Refund.* This pertains to the refunded amount by the Company when after payment of premiums by the policyholder, the Company cancels or declines the insurance application. This may also pertain to the refund of payments received in excess of the amount billed. The amount is recognized when the refund to the policyholder takes place.

*Insurance Taxes.* These pertain to the amount of premiums and documentary stamps taxes issued for in-force policies that are recognized when incurred.

## 2.22 Leases

The Company accounts for its leases as follows:

### (a) *Company as Lessee*

For any new contracts entered into, 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 assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.24).

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. 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.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from property and equipment and other liabilities, respectively.

*(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 as income 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 fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

***2.23 Foreign Currency Transactions and Translations***

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 liabilities denominated in foreign currencies are recognized in profit or loss section of the statement of comprehensive income.

***2.24 Impairment of Non-financial Assets***

The Company's investments in subsidiaries and an associate, investment properties, property and equipment, right-of-use assets, intangible assets and other non-financial assets are subject to impairment testing. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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 fair value, reflecting market conditions, less costs to sell and 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. 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 or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

### ***2.25 Employee Benefits***

The Company's employment benefits to employees are 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, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds [using the reference 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 sources.

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 to the net defined benefit liability or asset and is included as part of Investment Expenses or Investment Income account in the statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment or 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, such as the Social Security System. 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.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

## **2.26 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 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 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 the 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 carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax assets 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 to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted 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 assets 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.

### ***2.27 Related Party Transactions and Relationships***

Related party transactions are transfers of resources, services or obligations between the Company and its related parties.

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.

### ***2.28 Events After the End of the Reporting Period***

Any post-year-end event that provides additional information about the Company's position at the statement of financial position date (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. SUMMARY OF 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, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

*(a) Determination of Lease Term of Contracts with Renewal and Termination Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For the lease of offices, the factors that are normally the most relevant are (a) if there are significant penalties should the Company pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Company is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised or not exercised or the Company becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company.

*(b) Product Classification*

The Company has determined that the unit-linked insurance policies it issues that link the payments on the contract to units of internal investment funds has significant insurance risk and therefore meets the definition of an insurance contract and should be accounted for as such.

*(c) Impairment of AFS Financial Assets*

The Company considers that financial assets at fair value are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates other factors, including normal volatility in share price for quoted securities and the future cash flows and the discount factors for unquoted securities. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Based on the recent evaluation of information and circumstance affecting the Company's AFS financial assets, management concluded that certain AFS financial assets are impaired as at December 31, 2019 (see Note 10). Consequently, in 2019, the management had fully written-off the remaining balance of its investments in Coconut Industry Investment Fund (CIIF) Oil Mills Companies and United Coconut Planters Bank (UCPB) common shares amounting to P6,304.30 million. This was charged against the balance of Deferred Tax Liabilities, Reserve for fluctuations of AFS Financial Assets and Retained Earnings amounting to P569.04 million, P5,131.06 million and P604.20 million, respectively.



Management further assessed that its investments in UCPB preferred shares with a carrying amount of P100.00 million, as of December 31, 2019, are already impaired in light of the recent developments in the ownership of CIIF-OMG and UCPB. In addition, the Company assessed that various equity investments amounting to P1,030.70 million are also impaired, due to the significant and prolonged decline of the market price of those equity shares. However, management adjusted these impairment losses directly against the opening balance of Retained Earnings account as management believes that these investments were already impaired in prior years due to persistent fair value losses incurred from these investments (see Note 10).

In 2020, the management assessed that no impairment shall be recognized in its AFS financial assets.

(d) *Classification of Financial Instruments*

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position. In addition, the Company classifies assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(e) *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 2.19 and disclosures on relevant provisions and contingencies are presented in Note 36.

(f) *Distinction Between Operating and Finance Leases where the Company is the Lessor*

The Company has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(g) *Going Concern Assumption*

When preparing financial statements, the management makes an assessment of the Company's ability to continue as a going concern. The Company prepares financial statements on a going concern basis unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When management is aware in making its assessment of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, the Company discloses those uncertainties. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The degree of consideration depends on the facts in each case.

The management believes that the Company will continue as a going concern entity despite the failure to comply with the minimum risk-based capital (RBC) ratio requirement of 100% of the IC as of December 31, 2020. While such noncompliance indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern entity, a five-year regulatory leeway was granted by the IC to the Company, for it to build-up the Company's capital (see also Note 5.3).

### **3.2 Key Sources of Estimation Uncertainty**

The following 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) Legal Policy Reserves*

Legal policy reserves represent estimates of present value of future benefits and expenses in excess of present value of future gross premiums. These estimates are based on interest rates, mortality/morbidity tables, lapses and valuation method subject to the provisions of the Insurance Code and guidelines set by the IC.

The liability for life insurance contracts uses the discount rate as provided by the IC with other assumptions based on best estimate with regard to significant recent experience and appropriate MfAD from the expected experience. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability. The main assumptions used relate to mortality, morbidity, lapse, and discount rate.

For life insurance contracts, estimates are made as to the expected number of deaths and lapses for each of the years in which the Company is exposed to risk.

The Company uses mortality tables and lapse rates subject to the guidelines set by the IC as the basis of these estimates. The estimated number of lapses, deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums.

The carrying value of the legal policy reserves, shown as part of Insurance Contract Liabilities account in the statements of financial position, amounted to P16,847.13 million and P15,114.06 million of December 31, 2020 and 2019, respectively (see Note 21).

#### *(b) Liabilities Arising from Claims made under Insurance Contracts*

There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for such claims. Although the ultimate liability arising from life insurance contracts is largely determined by the face amount of each individual policy, the Company also issues accident and health policies and riders where the claim amounts may vary. Claims estimation by the Company considers many factors such as industry average mortality and morbidity experience, with adjustments to reflect Company's historical experience. These liabilities form part of the Company's incurred but not reported (IBNR) claims which is included in Policy and contract claims account under Insurance Contract Liabilities in the statements of financial position. The IBNR recognized by the Company amounted to P1,201.72 million and P1,038.30 million as at December 31, 2020 and 2019, respectively (see Note 21).

(c) *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 FVPL and AFS financial assets and the amounts of fair value changes recognized on those assets are disclosed in Notes 9 and 10, respectively.

(d) *Impairment of Financial Assets at Amortized Cost*

The Company reviews its financial assets at amortized cost at each reporting date to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The level of this allowance is evaluated by management on the basis of factor that affects the collectability of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of financial assets, and identifies accounts that are to be provided with allowance on a regular basis. In addition to specific allowance against individually significant financial assets, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loans, receivables, and investments since it was granted or acquired.

These internal ratings take into consideration factors such as concentration risks, identified structural weaknesses and deterioration in cash flows. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Impairment losses on loans and other receivables amounted to P55.88 million, and P14.42 million in 2020 and 2019, respectively, which are presented as part of Impairment losses under General and Administrative Expenses account in the statements of comprehensive income (see Note 31). The Company's insurance receivables, AFS financial assets, loans and other receivables, and accrued income, net of allowance for impairment losses are presented in Notes 8, 10, 11, and 12, respectively.

(e) *NRV of Real Estate Inventories*

The Company reviews real estate inventories for probable impairment in value. Management's judgment in determining if the real estate inventories are impaired is based on the assessment of the asset's estimated net selling price.

Estimated selling price is derived for publicly available market data and historical experience, while estimated cost of disposal are basically commission expense based on historical experience.

As indicated in Note 15, management assessed that the respective net realizable values of the Company's real estate inventories are higher than their respective costs.

(f) *Estimation of Useful Lives of Investment Properties, Property and Equipment, Right-of-Use Assets and Intangible Assets*

The Company estimates the useful lives of investment properties, property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets 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. For the right-of-use assets, the Company bases the useful lives on the lease terms agreed upon in each lease contract. Based on management's assessment as of December 31, 2020 and 2019, there is no change in the estimated useful lives of those assets during those years.

Analyses of the carrying amounts of investment properties, property and equipment, right-of-use assets and intangible assets are presented in Notes 16, 17, 18 and 19, respectively. Actual results, however, may vary due to changes in factors mentioned above.

(g) *Impairment of Investments in Subsidiaries and an Associate*

The Company assesses impairment on its investments in subsidiaries and an associate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Company considers important which could trigger an impairment review on its investments in subsidiaries and an associate include the following:

- deteriorating or poor financial condition;
- recurring net losses; and,
- significant changes (i.e., technological, market, economic, or legal environment in which the subsidiary and associate operates) with an adverse effect on the subsidiary or associate have taken place during the period, or will take place in the near future.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's fair value less cost to sell, which considers the estimated realizable and settlement amounts of the assets and liabilities of the subsidiary or associate.

The carrying value of the Company's investments in subsidiaries and an associate are disclosed in Note 14. Based on management's assessment, the Company's investments in subsidiaries and an associate is impaired by P50.88 million as of December 31, 2019 which was directly charged against Retained Earnings account instead of recognizing an impairment loss in the 2019 profit or loss. In 2020, the management assessed that no impairment loss was necessary to be recognized on its investment in subsidiaries and associates.

(b) *Impairment of Non-financial Assets (Other than Investment in Subsidiaries and an Associate)*

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for cash-generating unit to which the asset belongs.

No impairment losses were necessary to be recognized on the Company's investment properties, property and equipment, intangible assets, right-of-use assets and other non-financial assets in 2020 and 2019, based on management's assessment (see Notes 16, 17, 18, and 19).

(i) *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. Management identified certain deferred tax assets that should be unrecognized. On the other hand, management assessed that the deferred tax assets recognized as at December 31, 2020 and 2019 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 33.

(j) *Valuation of Post-employment Defined Benefit*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by an independent actuary in calculating such amounts. Those assumptions are described in Note 32.2 and include, among others, discount rates, salary increase rate and employee turnover 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 obligation in the next reporting period.

The Company determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related pension liability.

Other key assumptions for retirement benefit obligation are based in part on current market conditions. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's obligation.

#### **4. RISK MANAGEMENT OBJECTIVES AND POLICIES**

Risks are inherent in the business activities of the Company. Among its identified risks are insurance risk, investment risk, credit risk, liquidity risk and market risk. These are managed through a risk management framework and governance structure that provides comprehensive controls and management of major risks on an ongoing basis.

Risk management is the process by which the Company identifies its key risks, obtains consistent and understandable risk measures, decides which risks to take on or reduce and how this will be done, and establishes procedures for monitoring the resultant risk positions. The objective of risk management is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives including failing to exploit opportunities. The Company recognizes the critical importance of having efficient and effective risk management systems in place.

##### ***4.1 Risk Management Structure and Strategies***

The Company has established a risk management function with clear terms of reference for the Company's BOD, its committees and the associated executive management committees. Further, a clear organizational structure with documented delegated authorities and responsibilities from the Company's BOD to executive management committees and senior managers has been developed. Lastly, a policy framework which sets out the risk appetite of the Company, risk management, control and business conduct standards for the Company's operations has been put in place. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the Company.

The BOD has approved the Company's risk management policies and meets monthly to approve on any commercial, regulatory and own organization requirements in such policies. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirement.

##### ***4.2 Insurance Risk***

The risk under an insurance contract that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefits payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims and actual benefits paid are greater than originally estimated.

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

Life insurance contracts offered by the Company mainly include whole life insurance, term insurance, endowments, unit-linked products, group, and accident and health insurance, which are described as follows:

- Whole life insurance and term insurance are conventional products where lump sum benefits are payable upon death of the insured.
- Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the fixed term is completed.
- Unit-linked products differ from conventional policies. In unit-linked products, a guaranteed percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.
- Group life insurance covers a defined group of people insured by the employer under a master policy agreement that is normally issued on a yearly renewable term.
- Accident and health insurance covers payment of hospital and medical expenses when sickness, accidental injury, or accidental death happened to the insured.

The main risks the Company is exposed to include:

- Mortality Risk - risk of loss arising from policyholder death experience being different than expected.
- Morbidity Risk - risk of loss arising from policyholder health experience being different than expected.
- Expense Risk - risk of loss arising from expense experience being different than expected.
- Policyholder Decision Risk - risk of loss arising from policyholder experience (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured, type of risk insured and by industry insured by the Company. Undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company's underwriting strategy is designated to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting strategy is in place to enforce appropriate risk selection criteria.

There has been no change to the Company's exposure to insurance risks or the manner in which it manages and measures the risks since prior reporting period.

*Concentration of Insurance Risk*

The table below sets out the Company's concentration of insurance risk based on the sum assured:

	2020		2019	
	Number of Policies	Sum Assured	Number of Policies	Sum Assured
Endowment	41,079	P 10,437,869,050	51,027	P 13,103,805,394
Whole life	22,170	7,584,672,682	22,957	7,833,242,471
Accident and health	13,460	81,450,582,016	13,489	97,758,158,065
Term	12,205	2,746,750,143	11,721	2,878,047,010
Variable/unit-linked	11,761	10,427,849,833	11,627	10,165,321,299
Group	1,931	430,544,210,024	439,735	470,264,049,086
	<u>102,606</u>	<u>P 543,191,933,748</u>	<u>550,556</u>	<u>P 602,002,623,325</u>

The table below sets out the concentration of life insurance liabilities by type of contract, at gross and net of reinsurance (see Notes 13 and 21).

	2020			2019		
	Gross Legal Policy Reserves	Reinsurers' Share on Liabilities	Net Legal Policy Reserves	Gross Legal Policy Reserves	Reinsurers' Share on Liabilities	Net Legal Policy Reserves
Variable life	P 6,132,692,831	P -	P 6,132,692,831	P 6,127,422,010	P -	P 6,127,422,010
Endowment	5,494,266,310	( 926,691)	5,493,339,619	4,444,519,928	( 849,952)	4,443,669,976
Whole life	3,250,549,950	( 4,727,716)	3,245,822,234	2,559,354,059	( 3,262,321)	2,556,091,738
Accident and health	1,081,528,093	( 225)	1,081,527,868	1,010,276,860	( 3,106)	1,010,273,754
Group life	543,657,065	-	543,657,065	717,330,684	-	717,330,684
Term	344,436,981	( 1,073,897)	343,363,084	255,152,388	( 977,215)	254,175,173
	<u>P 16,847,131,230</u>	<u>(P 6,728,529)</u>	<u>P 16,840,402,701</u>	<u>P 15,114,055,929</u>	<u>(P 5,092,594)</u>	<u>P 15,108,963,335</u>

The tables below set out the concentration of life insurance liabilities with and without DPF, at gross and net of reinsurance (see Notes 13 and 21).

	Gross Legal Policy Reserves	Reinsurers' Share on Liabilities	Net Policy Reserves
<b>2020</b>			
With fixed and guaranteed terms			
Fixed and guaranteed – non-participating	P 7,875,378,743	(P 3,080,979)	P 7,872,297,764
Partially fixed and guaranteed – participating	2,839,059,656	( 3,647,550)	2,835,412,106
Unit-linked	<u>6,132,692,831</u>	<u>-</u>	<u>6,132,692,831</u>
Total insurance liabilities	<u>P 16,847,131,230</u>	<u>(P 6,728,529)</u>	<u>P 16,840,402,701</u>
<b>2019</b>			
With fixed and guaranteed terms			
Fixed and guaranteed – non-participating	P 6,684,439,056	(P 2,681,174)	P 6,681,757,882
Partially fixed and guaranteed – participating	2,302,194,863	( 2,411,420)	2,299,783,443
Unit-linked	<u>6,127,422,010</u>	<u>-</u>	<u>6,127,422,010</u>
Total insurance liabilities	<u>P 15,114,055,929</u>	<u>(P 5,092,594)</u>	<u>P 15,108,963,335</u>



*Classification by Attained Age (Based on 2020 and 2019 Data of In-force Policies)*

The tables below present the concentration of risk by attained age on whole life, endowment, term insurance policy contracts and variable/unit-linked. For individual insurance, exposure is concentrated on age brackets 40-44 to 50-54 and those below 20.

Attained Age	Gross of Reinsurance		Net Reinsurance	
	Exposure	Concentration (%)	Exposure	Concentration (%)
<b>2020</b>				
<20	P 3,750,649,077	12.0	P 3,590,926,534	12.4
20 - 24	1,980,013,452	6.3	1,906,997,896	6.6
25 - 29	3,052,876,025	9.8	2,916,018,815	10.2
30 - 34	3,678,176,338	11.8	3,516,508,085	12.1
35 - 39	4,199,847,408	13.5	3,900,748,936	13.4
40 - 44	3,908,924,469	12.5	3,517,367,588	12.1
45 - 49	3,205,913,743	10.3	2,885,961,442	9.9
50 - 54	2,728,691,744	8.7	2,470,497,100	8.5
55 - 59	1,990,202,813	6.3	1,827,897,188	6.3
60 - 64	1,465,252,577	4.8	1,318,308,331	4.5
65 - 69	784,707,934	2.5	734,561,528	2.5
70 - 74	317,569,184	1.0	295,820,214	1.0
75 - 79	102,165,680	0.3	95,004,064	0.3
80+	32,151,265	0.2	31,590,031	0.2
	<b>P 31,197,141,709</b>	<b>100.00</b>	<b>P29,008,207,752</b>	<b>100.00</b>

**2019**

<20	P 4,108,044,852	12.10	P 3,931,605,103	12.5
20 - 24	2,395,472,891	7.0	2,303,538,125	7.3
25 - 29	3,750,290,192	11.0	3,603,393,670	11.5
30 - 34	4,386,786,358	12.9	4,160,249,552	13.2
35 - 39	4,520,686,511	13.3	4,129,645,833	13.1
40 - 44	4,180,039,980	12.3	3,682,860,918	11.7
45 - 49	3,432,307,506	10.1	3,108,733,161	9.9
50 - 54	2,692,293,872	7.9	2,377,321,345	7.6
55 - 59	2,141,923,415	6.3	1,968,924,803	6.3
60 - 64	1,235,090,978	3.6	1,095,080,889	3.5
65 - 69	759,173,669	2.2	701,982,819	2.2
70 - 74	255,530,909	0.8	233,280,075	0.7
75 - 79	93,681,540	0.3	85,729,609	0.3
80+	29,093,501	0.2	28,295,634	0.2
	<b>P 33,980,416,174</b>	<b>100.00</b>	<b>P31,410,641,536</b>	<b>100.00</b>

The table below presents the concentration of risk by business type for group insurance.

Business Type	2020		2019	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
Employer-employee association benefit	P 125,102,022	29.06	P 127,712,919	27.16
Credit life insurance	185,020,405	42.97	204,868,324	43.56
Compulsory migrant workers insurance	73,706,181	17.12	91,952,938	19.55
Reinsurance	-	-	2,186,830	0.47
Coconut farmers insurance	39,571,228	9.19	27,613,031	5.87
Personal accident	5,912,037	1.37	14,555,365	3.10
Pre-need planholders	1,232,337	0.29	1,374,642	0.29
	<b>P 430,544,210</b>	<b>100.00</b>	<b>P 470,264,049</b>	<b>100.00</b>

The table below presents the concentration of risk by industry type for accident and health insurance.

Industry Type	2020		2019	
	Net Reinsurance		Net Reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
I. Accident	<b>P 69,156,900</b>	<b>100.00</b>	<b>P 88,065,323</b>	<b>100.00</b>
II. Health				
Business process				
outsourcing	4,784,263	38.92	3,951,525	40.77
Government agencies	2,756,540	22.42	1,997,365	20.61
Services/distribution	1,973,975	16.06	1,528,265	15.77
Banking/ financials	901,620	7.33	233,420	2.41
Manufacturing	556,130	4.52	558,620	5.76
Real estate	481,955	3.92	425,660	4.39
Shipping	360,130	2.93	682,250	7.04
Hotel	216,500	1.76	82,840	0.85
Non-profit associations	188,055	1.53	106,515	1.10
Learning institutions	74,515	0.61	126,375	1.30
	<b>12,293,683</b>	<b>100.00</b>	<b>9,692,835</b>	<b>100.00</b>
	<b>P 81,450,583</b>	<b>100.00</b>	<b>P 97,758,158</b>	<b>100.00</b>

*Source of Uncertainty in the Estimation of Future Claim Payment*

Estimation of future payments and premium receipts is subject to unpredictability of changes in mortality and morbidity levels. The Company adopts standard industry data in assessing future benefit payments and premium receipts as approved by IC. Adjustments are made, if necessary, according to the experience of the Company.

For individual life insurance, no adjustment is made by the Company to the standard mortality table. For group life, accident and health insurance, the mortality table is adjusted to reflect the Company's actual and projected experiences which are given weights or credibility depending on the amount and length of exposure under consideration. The Company currently monitors its actual experience on individual business, on a per policy basis and on an aggregate basis, and reporting the same to management.

The liability for these contracts comprises the IBNR provision and a provision for unexpired risk at the end of reporting period. The IBNR provision is based on historical experience and is subject to a degree of uncertainty.

*Key Assumptions*

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

For insurance contracts, the Company determines the assumptions in relation to future deaths, illness or injury and investment returns at inception of the contract. Subsequently, new estimates are developed at each reporting date and liabilities are tested to determine whether such liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, assumptions are altered to reflect the latest current estimates. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant deteriorations in estimates have an impact.

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

- *Mortality and Morbidity Rates*

Assumptions are based on standard industry and national mortality and morbidity tables, according to the type of contract written and which may be adjusted where appropriate to reflect the Company's own experience. Assumptions are differentiated by age, underwriting class and contract type.

An increase in mortality and morbidity rates would lead to a larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and generally reducing profits for the shareholders.

- *Discount Rate*

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

An increase in investment return would lead to an increase in profits for the shareholders. A decrease in the discount rate will increase the value of the liability. As required by the Insurance Code, lapse, surrender and expense assumptions are not factored in the computation of the insurance contract liabilities.

As part of the Company's investment strategy, in order to reduce both insurance and financial risks, the Company matches its investments to the liabilities arising from insurance, by reference to the type of benefits payable to the policyholders.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on liabilities, income before tax and equity. The correlation of variables will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis. It should be noted that movements in these variables are nonlinear.

<u>Increase (Decrease)</u>	<u>Mortality/Morbidity</u>		<u>Discount Rate</u>	
	<u>110% of Original Mortality Table</u>	<u>90% of Original Mortality Table</u>	<u>Original Valuation Interest Rate +1%</u>	<u>Original Valuation Interest Rate -1%</u>
<u>2020</u>				
Net liabilities	P 322,740,430	(P 326,390,293)	(P1,123,758,848)	P1,437,340,418
Income before tax	( 322,740,430)	326,390,293	1,123,758,848	( 1,437,340,418)
Equity	( 225,918,301)	228,473,205	786,631,194	( 1,006,138,293)
<u>2019</u>				
Net liabilities	P 241,141,686	(P 244,509,702)	(P 823,023,407)	P1,028,026,524
Income before tax	( 241,141,686)	244,509,702	823,023,407	( 1,028,026,524)
Equity	( 168,799,180)	171,156,792	576,116,385	( 719,618,567)

The methods used for deriving sensitivity information and significant assumptions did not change from the previous period.

### **4.3 Investment Risk**

The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future, that is, the investment of those future premiums receipts may be at a yield below that required to meet future policy liabilities.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management reinvests the proceeds of the maturing securities and future premium receipts to financial instruments with satisfactory investment quality.

The Company's strategy is to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations taking into consideration limitations set by IC. Another strategy is to produce cash flows required to meet maturing insurance liabilities.

The Company invests in equities for various reasons, including diversifying its overall exposure to equity price risk. AFS financial assets are subject to declines in fair value. Generally, insurance regulations restrict the type of assets in which an insurance company may invest.

The Company uses asset-liability matching (ALM) as a management tool to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Company may determine that it is economically advantageous to be temporarily in an unmatched position due to the anticipated interest rate or other economic changes.

#### **4.4 Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Investment Committee. The policy is regularly reviewed for pertinence and for changes in the risk;
- Net exposure limits are set for each counterparty or group of counterparties, geographical and industry segments (i.e., limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may held);
- Reinsurance is placed with highly rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment;
- The Company sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings; and,
- The credit risk in respect of customer balances which are incurred on nonpayment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry or when the policy is either paid up or terminated. Commissions paid to intermediaries are offset against any amounts due to reduce the risk of non-collection.

Except for mortgage loans, collateral loans, installment contract receivable, policy loans, and guaranteed loans (presented as part of Note receivable under Loans and Other Receivables), the maximum exposure to credit risk of all financial assets is equal to their carrying amounts.

Policy loans are secured by the cash surrender values on the related policies. The Company grants policy loans up to the extent of the cash surrender values accumulated on the latest policy anniversary dates. The Company is not exposed to credit risk with respect to policy loans.

The tables below show the financial effect of the collateral or credit enhancement to the Company's maximum credit risk as at December 31, 2020 and 2019.

	<u>Gross Maximum</u>	<u>Fair Value of Collateral or Credit Enhancement</u>	<u>Net Exposure</u>	<u>Financial Effect of Collateral or Credit Enhancement</u>
<b>2020</b>				
Mortgage loans	P 3,007,815,190	P 9,886,241,311	P -	P 3,007,815,190
Installment contract receivables	210,926,852	439,266,081	-	439,266,081
Collateral loans	<u>92,498,355</u>	<u>251,152,824</u>	<u>-</u>	<u>92,498,355</u>
	<b><u>P 3,311,240,397</u></b>	<b><u>P 10,576,660,216</u></b>	<b><u>P -</u></b>	<b><u>P 3,539,579,626</u></b>
<b>2019</b>				
Mortgage loans	P 3,733,402,094	P 5,102,776,123	P -	P 3,733,402,094
Installment contract receivables	225,001,085	240,710,967	-	225,001,085
Collateral loans	<u>85,463,330</u>	<u>92,495,237</u>	<u>-</u>	<u>85,463,330</u>
	<b><u>P 4,043,866,509</u></b>	<b><u>P 5,435,982,327</u></b>	<b><u>P -</u></b>	<b><u>P 4,043,866,509</u></b>

The Company's concentration of credit risk arises from loans and other receivables since the said financial instruments amounted to P5.97 billion (2019: P6.78 billion) and 31.00% (2019: 30.74%) of its total financial assets as at December 31, 2020.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties, gross of any allowance for impairment.

	<u>Neither Past Due nor Impaired</u>					<u>Total</u>
	<u>Investment Grade</u>	<u>Non- Investment Grade – Satisfactory</u>	<u>Non- Investment Grade – Unsatisfactory</u>	<u>Past Due but not Impaired</u>	<u>Past Due and Impaired</u>	
<b>2020</b>						
Cash and cash equivalents*	P 1,720,739,860	P -	P -	P -	P -	P 1,720,739,860
Insurance receivables						
Premiums due and uncollected	-	1,129,461,093	-	-	9,450,822	1,138,911,915
Due from agents	-	31,429,933	-	-	17,272,234	48,702,167
Financial assets at FVPL						
Debt securities	4,185,683,681	-	-	-	-	4,185,683,681
AFS financial assets						
Debt securities	5,456,822,655	-	-	-	-	5,456,822,655
Loans and other receivables						
Mortgage loans	2,420,861,241	15,181,515	6,405,934	561,012,215	4,354,285	3,007,815,190
Notes receivable	147,933,593	-	-	1,243,610,367	163,853,431	1,555,397,391
Health management organization (HMO) billback	7,391,235	-	-	-	253,071,359	260,462,594
Policy loans	490,443,855	-	-	-	-	490,443,855
Investment accounts receivable	-	-	-	80,762,486	13,107,049	93,869,535
Claims receivable - farmers	-	448,512,549	-	-	34,508,525	483,021,074
Installment contracts receivables	16,873,072	2,156,263	75,294,810	116,602,707	-	210,926,852
Collateral loans	-	-	50,881	88,618,520	3,828,954	92,498,355
Advances to officers and employees	36,664,798	-	-	-	3,974,131	40,638,929
Other receivables	215,270,423	-	-	-	-	215,270,423
Accrued income	79,419,333	-	-	-	245,494	79,664,827
Reinsurance assets**	9,888,699	-	-	-	-	9,888,699
Other assets***	<u>21,484,938</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,484,938</u>
	<b><u>P 14,809,477,383</u></b>	<b><u>P 1,626,741,353</u></b>	<b><u>P 81,751,625</u></b>	<b><u>P 2,090,606,295</u></b>	<b><u>P 503,666,284</u></b>	<b><u>P 19,112,242,940</u></b>

\* Excluding cash on hand.

\*\* Reinsurance recoverable on unpaid losses.

\*\*\* Pertains to refundable deposits.

2019	Investment Grade	Non- Investment Grade Satisfactory	Non- Investment Grade Unsatisfactory	Past Due but not Impaired	Past Due and Impaired	Total
Cash and cash equivalents*	P 2,393,081,517	P -	P -	P -	P -	P 2,393,081,517
Insurance receivables						
Premiums due and uncollected	-	841,326,396	-	-	9,450,822	850,777,218
Due from agents	-	25,788,649	-	-	17,272,234	43,060,883
Financial assets at FVPL						
Debt securities	2,196,037,426	-	-	-	-	2,196,037,426
AFS financial assets						
Debt securities	4,438,372,753	-	-	-	-	4,438,372,753
Loans and other receivables						
Mortgage loans	3,599,133,232	83,339,564	2,502,422	44,012,591	4,354,285	3,733,342,094
Notes receivable	57,896,188	-	-	1,254,991,601	152,599,556	1,465,487,345
Health management organization (HMO) billback	183,539,307	-	-	-	218,443,208	401,982,515
Policy loans	515,363,730	-	-	-	-	515,363,730
Investment accounts receivable	-	-	-	56,407,402	13,107,049	69,514,451
Claims receivable - farmers	-	444,472,549	-	-	24,508,525	468,981,074
Installment contracts receivables	22,144,908	3,634,028	81,552,272	117,669,877	-	225,001,085
Collateral loans	78,539,068	-	50,881	2,053,307	4,820,074	85,463,330
Advances to officers and employees	39,783,114	-	-	-	4,824,943	44,608,057
Other receivables	194,100,877	-	-	-	-	194,100,877
Accrued income	87,562,875	-	-	-	245,480	87,808,355
Reinsurance assets**	5,392,594	-	-	-	-	5,392,594
Other assets***	20,037,123	-	-	-	-	20,307,123
	<u>P 13,830,984,712</u>	<u>P 1,398,561,186</u>	<u>P 84,105,575</u>	<u>P 1,475,134,778</u>	<u>P 449,626,176</u>	<u>P 17,238,682,427</u>

\* Excluding cash on hand.

\*\* Reinsurance recoverable on unpaid losses.

\*\*\* Pertains to refundable deposits.

The Company uses an internal credit rating concept based on the borrowers' and counterparties' overall credit worthiness as follows:

*Investment Grade* – Rating given to borrowers and counterparties who have very strong capacity to meet their obligations.

*Non-investment Grade – satisfactory* – Rating given to borrowers and counterparties whose outstanding obligation is within the acceptable age of group.

*Non-investment Grade – unsatisfactory* – Rating given to borrowers and counterparties whose outstanding obligation is nearing to be past due or impaired.

An allowance for impairment is set up in the Company's statements of financial position for assets classified as past due and impaired. Financial assets are considered as past due and impaired when the contractual payments are in arrears by 180 days and the amount is not adequately secured. When contractual payments are in arrears, more than 180 days but adequately secured, financial assets are classified as 'past due but not impaired' with no recorded allowance for impairment.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending and for cash purposes. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The related fair value of the collateral for the above past due and impaired assets amounted to P169.00 million and P161.58 million in 2020 and 2019, respectively. Total amount of past due and impaired assets with collateral is P172.03 million and P160.78 million for 2020 and 2019, respectively.

#### 4.5 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- a liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Investment Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment;
- set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations; and,
- setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

The table below summarizes the maturity profile of the Company's financial liabilities (except lease liabilities – see Note 18) based on contractual undiscounted payment or on the estimated timing of net cash flows as at December 31, 2019 and 2018 (amounts in thousands):

	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Over Five Years</u>	<u>No Term/ 1 – 90 days</u>	<u>Total</u>
<b>2020</b>					
Policy and contract claims	P 2,062,470	P -	P -	P -	P 2,062,470
Reserve for policyholders' dividends	207,894	-	-	-	207,894
Premium deposits funds	944,634	-	-	-	944,634
Insurance payables	38,762	-	-	-	38,762
Accounts payable and accrued expenses	<u>1,837,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,837,081</u>
	<b><u>P 5,090,841</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 5,090,841</u></b>
<b>2019</b>					
Policy and contract claims	P 1,711,164	P -	P -	P -	P 1,711,164
Reserve for policyholders' dividends	197,464	-	-	-	197,464
Premium deposits funds	719,307	-	-	-	719,307
Insurance payables	40,620	-	-	-	40,620
Accounts payable and accrued expenses	<u>1,421,997</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,421,997</u>
	<b><u>P 4,090,552</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 4,090,552</u></b>



It is unusual for a company primarily engaged in insurance business to predict its funding requirements with absolute certainty as theory of probability is applied on insurance contracts to determine the likely provision and the time period when such liabilities will require settlement. Thus, the amounts and maturities in respect of insurance liabilities are based on management's best estimate using statistical techniques and data on past experience.

#### **4.6 Market Risk**

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

The following policies and procedures are in place to mitigate the Company's exposures to market risk:

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Investment Committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Asset allocation and portfolio limit structure are set to ensure that assets back specific policyholder's liabilities and that assets are held to deliver income and market value appreciation for policyholders in line with their expectations.
- Stipulated diversification benchmarks are arranged by type of instrument of the Company.

##### **4.6.1 Currency Risk**

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

The Company's principal transactions are carried out in Philippine peso and its foreign exchange risk arises primarily with respect to the transactions denominated in U.S. dollar, where some of its products are denominated. The Company's financial assets are primarily denominated in the same currency as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized financial assets and financial liabilities denominated in currency other than in which the insurance contracts are expected to be settled.

The tables in the succeeding page show the details of the Company's foreign currency-denominated assets and liabilities and their Philippine peso equivalents.

	<u>USD</u>		<u>PHP</u>
<b>2020</b>			
Assets:			
Cash and cash equivalents	\$ 5,263,249	P	252,757,006
Financial assets at FVPL	7,603,325		365,134,460
AFS financial assets	4,659,318		223,754,440
Accrued income	<u>111,274</u>		<u>5,343,702</u>
	17,637,166		846,989,608
Liability –			
Insurance contract liabilities	<u>4,289,204</u>		<u>205,980,454</u>
	<u>\$ 13,347,962</u>		<u>P 641,009,154</u>
<b>2019</b>			
Assets:			
Cash and cash equivalents	\$ 5,153,171	P	260,930,806
Financial assets at FVPL	7,280,688		368,657,657
AFS financial assets	3,375,049		170,895,581
Accrued income	<u>115,511</u>		<u>2,620,270</u>
	15,924,419		803,104,314
Liability –			
Insurance contract liabilities	<u>4,928,251</u>		<u>249,541,963</u>
	<u>\$ 10,996,168</u>		<u>P 553,562,351</u>

In translating the foreign currency-denominated assets and liabilities, the exchange rates used were P48.02 to USD1.00 and P50.64 to USD1.00, the PHP-USD prevailing exchange rates as at December 31, 2020 and 2019, respectively.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on income before income tax.

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

The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact, key changes had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

	<u>2020</u>		<u>2019</u>	
Change in variables	<u>9.51%</u>	( <u>9.51%</u> )	<u>12.93%</u>	( <u>12.93%</u> )
Increase (decrease) on income before income tax	(P 47,643,886)	P 47,643,886	( P 55,935,628)	P 55,935,628
Increase (decrease) on equity	( 33,350,720)	33,350,720	( 41,954,940)	41,954,940

#### 4.6.2 Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. The Company's fixed rate investments classified as AFS financial assets and Financial assets at FVPL are particularly exposed to such risk.

The Company's investment policy requires it to buy and hold fixed rate AFS financial assets and Financial assets at FVPL, unless the need to sell arises, and to reduce the duration gap between financial assets and financial liabilities to minimize interest rate risk.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on equity.

	<u>Change in Variables (%)</u>	<u>Increase (Decrease) on Equity</u>
<b><u>2020</u></b>		
In Philippine pesos	2.45	(P 23,234,967)
In U.S. dollars	1.63	( 2,537,118)
In Philippine pesos	( 2.45 )	122,285,134
In U.S. dollars	( 1.63 )	3,884,609
<b><u>2019</u></b>		
In Philippine pesos	0.03	(P 1,385,413)
In U.S. dollars	0.18	( 556,339)
In Philippine pesos	( 2.98 )	129,016,597
In U.S. dollars	( 1.65 )	5,192,073

In 2020 and 2019, the Company determined the reasonably possible change in interest rates using the percentage changes in weighted average yield rates of outstanding securities for the past two years.

#### 4.6.3 Equity Price Risk

The Company's equity price risk exposure at year-end relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally, equity securities classified as financial assets at FVPL and AFS financial assets.

The Company's price risk relates to financial assets whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

For equity securities listed in the Philippines and golf club shares, an average volatility of 14.94% and 10.42% has been observed during 2020 and 2019, respectively. If quoted price of these securities increased or decreased by that amount, profit before tax would have been changed by P0.62 billion and P0.41 billion, respectively.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Company's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Company's favor.

## 5. CAPITAL MANAGEMENT

### 5.1 *Regulatory Framework*

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions, net worth requirements, and RBC requirements to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. The Company's capital includes capital stock, contributed surplus and retained earnings.

The Company maintains a capital base to cover risks inherent in the business. Externally imposed capital requirements are set and regulated by the IC. These requirements are put in place to ensure solvency margins.

The Company manages its capital requirements by complying with requirements and limitations enforced by the IC, by maintaining profitability of the business and by aligning the Company's operational strategy to its corporate goals.

In 2019, the Company write-off its UCPB and CIIF shares which resulted to noncompliance with the RBC requirement. A five-year regulatory leeway was granted by the IC to build up the Company's capital.

The Company's primary capital management objectives are to ensure its ability to continue as a going concern in order to fulfill the Company's mission and vision and to provide adequate return to shareholders [see Note 3.1(g)].

The Company manages its capital structure in light of changes in the economic conditions and the risk characteristics of its activities. The Company takes into consideration future capital requirements, capital deficiency, profitability, and projected operating cash flows, expenditures and investment opportunities. No changes were made in the objectives, policies and processes as at December 31, 2020 and 2019.

## 5.2 Net Worth Requirements

Under the Insurance Code, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

<u>Compliance Date</u>	<u>Net Worth</u>
On or before June 30, 2013	P 250,000,000
On or before December 31, 2016	550,000,000
On or before December 31, 2019	900,000,000
On or before December 31, 2022	1,300,000,000

As at December 31, 2020 and 2019, the Company has complied with the net worth requirements based on its internal computation.

## 5.3 RBC Requirements

Insurance Memorandum No. 6-2006 provides for the RBC framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investments and insurance risks. Every life insurance company is required annually to maintain a minimum RBC ratio of one hundred (100%) and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include an insurance company's paid-up capital, contributed surplus and retained earnings. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC. RBC requirement shall be computed based on the formula provided in the Circular and shall include asset default risk, insurance pricing risk, interest rate risk and general business risk.

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

- the RBC ratio is less than 125% but is not below 100%
- the RBC ratio has decreased over the past year
- the difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%.

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

In 2016, the IC issued CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, prescribes that all insurance companies must satisfy the minimum statutory RBC ratio of 100% and not fail the trend test as stated under Section 3 of the circular. The RBC ratio of an insurance company shall be equal to the total available capital divided by the RBC requirement.

IC CL No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework*, provides that the level of sufficiency for the RBC2 Framework shall be at 97.50% level in 2018, 99.50% in 2019 and 99.50% in 2019.

IC CL No. 2018-19, *Amendment to CL no. 2016-69 "Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework"*, provides guidelines on disclosure of MfAD. The amendment states that MfAD shall be company-specific. The companies shall submit to the IC the documents and certification signed by an IC-accredited actuary to support the computation of their MfAD.

In 2020, IC issued CL No. 2020-60, *Regulatory Relief on Networth Requirements and Guidelines on the Implementation of Amended Risk-Based Capital (RBC2) Framework for Calendar Year 2020* and CL No. 2020-103, *Amendment to Section 1 of CL No. 2020-60 dated May 15, 2020*, on the regulatory relief to reduce the RBC requirement for 2020.

The RBC Ratio under the prevailing standard as at December 31, 2020 and 2019 are 90% and 92%, respectively. The final RBC ratio can be determined only after the accounts of the Company have been examined by the IC.

The information below shows the RBC ratios determined by the Company as at December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Net worth	P 3,505,371,785	P 3,329,561,907
RBC requirement	<u>3,884,954,274</u>	<u>3,603,181,208</u>
RBC Ratio	<u>90.23%</u>	<u>92.41%</u>

On July 1, 2019, upon the advice of the IC, the Company submitted its Revised Management Plan to address the RBC2 Deficiency, setting forth its program of actions to build up its RBC2 ratio which fell below the mandatory level following the write-off of its investment in stocks of the CIIF-OMG and UCPB.

On October 25, 2019, the IC issued its reply to the Revised Management Plan approving the five-year recovery program which the Company has proposed, giving it some regulatory leeway during the said period, subject to strict regular monitoring.

The Revised Management Plan provided the Company outlined the actions taken or to be taken by the Company for the period 2019 to 2023 which includes the following, among others:

- re-allocation of investments from mortgage loans and equity securities to government securities thru investment of its net income of an average P500.0 million every year;
- improve and fast-track claims recovery and collection from the Company's healthcare business; and,
- reduction of non-admitted assets or conversion to admitted assets.

With the intensified actions employed by the Company to address the RBC2 ratio deficiency, and with its excellent financial performance during 2019, the resulting RBC2 ratio for 2019 as audited and approved by the IC is 137% (as indicated in the IC letter dated March 5, 2021), which is already compliant with the minimum RBC requirement of 100% and far beyond the Company's commitment of 65% for the year 2019 as stipulated in the Revised Management Plan approved by the IC. With its continuous effort in addressing the RBC2 ratio, the Company is very confident that it will be able to comply with the IC requirement by the end of 2020, thereby drastically shortening the recovery period to two years instead of five years, as originally projected in the Revised Management Plan.

As at December 31, 2020 and 2019, the estimated amounts of non-admitted assets, as defined under the Insurance Code, which are included in the statements of financial position, are as follows:

	<u>2020</u>		<u>2019</u>
Loans and receivables	P 766,758,405	P	878,051,027
Equity securities and other investments	1,635,305		237,045,156
Premiums due and uncollected	857,206,529		501,644,466
Property and equipment	139,314,581		158,232,750
Investment property	46,481,228		17,699,635
Other assets and receivables	<u>759,009,087</u>		<u>795,413,532</u>
	<u>P 2,570,405,135</u>	P	<u>2,588,086,566</u>

#### ***5.4 Limitation on Dividend Declaration***

Section 195 of the Insurance Code provides that a domestic life insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- RBC ratio;
- the legal reserve fund required; and,
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

The Company is required to report such dividend declaration or distribution to the IC within 30 days from the date of such declaration.

There were no dividends declared by the Company in 2020 and 2019.

## 6. CATEGORIES, FAIR VALUE MEASUREMENT AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 6.1 Comparison of Carrying Amounts and Fair Values

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

	Classes		Carrying Amount	Fair Value
	At Amortized Cost	At Fair Value		
<b>December 31, 2020</b>				
<b>Financial Assets</b>				
At amortized cost:				
Cash and cash equivalents	P 1,726,576	P -	P 1,726,576	P 1,726,576
Insurance receivables	1,170,342	-	1,170,342	1,170,342
Loans and other receivables	5,972,359	-	5,972,359	5,972,359
Accrued income	79,419	-	79,419	79,419
Reinsurance assets	9,889	-	9,889	9,889
Other assets	56,265	-	56,265	56,265
At fair value:				
Financial assets at FVPL	-	5,227,298	5,227,298	5,227,298
AFS financial assets	-	8,206,650	8,206,650	8,206,650
	<b>P 9,014,850</b>	<b>P 13,433,948</b>	<b>P 22,448,798</b>	<b>P 22,448,798</b>
<b>Financial Liabilities</b>				
At amortized cost:				
Insurance contract liabilities	P 18,909,601	P -	P 18,909,601	P 18,909,601
Reserve for policyholders' dividends	207,894	-	207,894	207,894
Premium deposit funds	944,634	-	944,634	944,634
Insurance payables	38,762	-	38,762	38,762
Accounts payable and accrued expenses	1,837,081	-	1,837,081	1,837,081
Lease liabilities	43,943	-	43,943	43,943
	<b>P 21,981,915</b>	<b>P -</b>	<b>P 21,981,915</b>	<b>P 21,981,915</b>
<b>December 31, 2019</b>				
<b>Financial Assets</b>				
At amortized cost:				
Cash and cash equivalents	P 2,398,865	P -	P 2,398,865	P 2,398,865
Insurance receivables	867,115	-	867,115	867,115
Loans and other receivables	6,781,247	-	6,781,247	6,781,247
Accrued income	87,808	-	87,808	87,808
Reinsurance assets	5,393	-	5,393	5,393
Other assets	54,161	-	54,161	54,161
At fair value:				
Financial assets at FVPL	-	3,258,571	3,258,571	3,258,571
AFS financial assets	-	7,498,952	7,498,952	7,498,952
	<b>P 10,194,589</b>	<b>P 10,757,523</b>	<b>P 20,952,112</b>	<b>P 20,952,112</b>
<b>Financial Liabilities</b>				
At amortized cost:				
Insurance contract liabilities	P 16,825,220	P -	P 16,825,220	P 16,825,220
Reserve for policyholders' dividends	197,464	-	197,464	197,464
Premium deposit funds	719,307	-	719,307	719,307
Insurance payables	40,620	-	40,620	40,620
Accounts payable and accrued expenses	1,421,997	-	1,421,997	1,421,997
Lease liabilities	66,132	-	66,132	66,132
	<b>P 19,270,740</b>	<b>P -</b>	<b>P 19,270,740</b>	<b>P 19,270,740</b>



## 6.2 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;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource 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 financial asset or financial 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 do 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 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.

## 6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities measured at fair value in the statements of financial position as of December 31, 2020 and 2019 are grouped into the fair value hierarchy as follows (in thousands):

	Notes	Level 1	Level 2	Level 3	Total
<b>December 31, 2020</b>					
Financial assets at FVPL	9				
Equity securities		P 1,011,465	P -	P -	P 1,011,465
Government debt securities		2,523,949	-	-	2,523,949
Corporate debt securities		1,661,735	-	-	1,661,735
Equity investments designated as financial assets at FVPL		-	30,150	-	30,150
AFS financial assets	10				
Equity securities		2,749,827	-	-	2,749,827
Debt securities		5,456,823	-	-	5,456,823
		<b>P13,403,799</b>	<b>P 30,150</b>	<b>P -</b>	<b>P 13,433,949</b>

	Notes	Level 1	Level 2	Level 3	Total
<b>December 31, 2019</b>					
Financial assets at FVPL	9				
Equity securities		P 1,031,925	P -	P -	P 1,031,925
Government debt securities		926,297	-	-	926,297
Corporate debt securities		1,269,740	-	-	1,269,740
Equity investments designated as financial assets at FVPL		-	30,609	-	30,609
AFS financial assets	10				
Equity securities		3,060,579	-	-	3,060,579
Debt securities		<u>4,438,373</u>	<u>-</u>	<u>-</u>	<u>4,438,373</u>
		<u>P 10,726,914</u>	<u>P 30,609</u>	<u>P -</u>	<u>P 10,757,523</u>

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

#### 6.4 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 (amounts in thousands).

	Notes	Level 1	Level 2	Level 3	Total
<b>December 31, 2020</b>					
<i>Financial assets</i>					
Cash and cash equivalents	7	P 1,726,576	P -	P -	P 1,726,576
Insurance receivables	8	-	-	1,170,342	1,170,342
Loans and other receivables	11	-	-	5,972,359	5,972,359
Accrued income	12	-	-	79,419	79,419
Reinsurance assets	13	-	-	9,889	9,889
Other assets	19	-	-	56,265	56,265
		<u>P 1,726,576</u>	<u>P -</u>	<u>P 7,288,274</u>	<u>P 9,014,850</u>
<i>Financial liabilities</i>					
Insurance contract liabilities	20	P -	P -	P 18,909,601	P 18,909,601
Reserve for policyholders' dividends	21	-	-	207,894	207,894
Premium deposit funds	22	-	-	944,634	944,634
Insurance payables	23	-	-	38,762	38,762
Accounts payable and accrued expenses	24	-	-	1,837,081	1,837,081
Lease liabilities		-	-	43,943	43,943
		<u>P -</u>	<u>P -</u>	<u>P 21,981,915</u>	<u>P 21,981,915</u>
<b>December 31, 2019</b>					
<i>Financial assets</i>					
Cash and cash equivalents	7	P 2,398,865	P -	P -	P 2,398,865
Insurance receivables	8	-	-	867,115	867,115
Loans and other receivables	11	-	-	6,781,247	6,781,247
Accrued income	12	-	-	87,808	87,808
Reinsurance assets	13	-	-	5,393	5,393
Other assets	19	-	-	54,161	54,161
		<u>P 2,398,865</u>	<u>P -</u>	<u>P 7,795,724</u>	<u>P 10,194,589</u>
<i>Financial liabilities</i>					
Insurance contract liabilities	20	P -	P -	P 16,825,220	P 16,825,220
Reserve for policyholders' dividends	21	-	-	197,464	197,464
Premium deposit funds	22	-	-	719,307	719,307
Insurance payables	23	-	-	40,620	40,620
Accounts payable and accrued expenses	24	-	-	1,421,997	1,421,997
Lease liabilities		-	-	66,132	66,132
		<u>P -</u>	<u>P -</u>	<u>P 19,270,740</u>	<u>P 19,270,740</u>

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

### 6.5 Fair Value Measurement of Investment Properties

The table below shows the levels within the fair value hierarchy of investment properties measured at fair value on a recurring basis as of December 31, 2020 and 2019 (in thousands).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2020	P -	P 1,481,355	P -	P 1,481,355
2019	P -	P 1,881,662	P -	P 1,881,662

The fair values of the Company's investment properties were arrived at using the Market Data Approach. Under this approach, the values of the properties are based on sale and listings of comparable properties registered in the vicinity. It requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator and adjustments of the differences between the subject properties and those actual sales and listings regarded as comparables. The comparison was premised on the factors of location, characteristics of the lot, time element, quality and prospective use.

The fair values measurement for investment properties has been categorized as a Level 2 fair value (see Note 16). The Company engaged accredited independent appraisers to determine the fair value of its investment properties.

### 6.6 Offsetting Financial Assets and Financial Liabilities

The Company has not set-off financial instruments in 2020 and 2019 and the only financial assets which are subject to offsetting arrangement is Company's policy loans which are secured with cash surrender value. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by the BOD and stockholders of both parties.

## 7. CASH AND CASH EQUIVALENTS

This account consists of:

	<u>2020</u>	<u>2019</u>
Cash on hand	P 5,835,719	P 5,783,664
Cash in banks	683,138,099	455,132,114
Short-term placements	<u>1,037,601,761</u>	<u>1,937,949,403</u>
	<u>P1,726,575,579</u>	<u>P2,398,865,181</u>

Cash in banks earn interest at prevailing interest rates. Cash equivalents are made for various periods depending on the immediate cash requirements of the Company and earn interest ranging from 0.05% to 0.25% in 2020 and 0.25% to 2.50% 2019.

Short-term placements are made for varying periods from 15 to 30 days and earn effective interest ranging from 0.25% to 1.50% in 2020 and from 1.50% to 7.50% in 2019.

Interest income earned in 2020 and 2019 amounted to P62.43 million and P127.92 million, respectively, and is presented as part of Interest income under Investment Income account in the statements of comprehensive income (see Note 28).

## 8. INSURANCE RECEIVABLES

This account consists of:

	<u>2020</u>	<u>2019</u>
Premiums due and uncollected	<b>P 1,138,911,915</b>	P 850,777,218
Due from agents	<u>48,702,167</u>	<u>43,060,883</u>
	<b>1,187,614,082</b>	893,838,101
Allowance for impairment	<u>( 17,272,234)</u>	<u>( 26,723,056)</u>
	<b><u>P 1,170,341,848</u></b>	<b><u>P 867,115,045</u></b>

In compliance with *Bayaniban Act I* and *Bayaniban Act II*, the Company grants premium moratoria to its clients resulting to an increase in the Company's insurance receivables account in 2020.

All of the Company's insurance receivables have been reviewed for indicators of impairment. Management determined that there was no additional allowance for impairment loss necessary as at December 31, 2020 and 2019.

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of the following financial assets which are issued in:

	<u>2020</u>	<u>2019</u>
Philippines	<b>P4,862,163,969</b>	P2,889,913,647
United States	<u>365,134,460</u>	<u>368,657,657</u>
	<b><u>P5,227,298,429</u></b>	<b><u>P3,258,571,304</u></b>

The carrying amounts of the financial assets at FVPL are classified as follows:

	<u>2020</u>	<u>2019</u>
Corporate debt securities	<b>P 1,661,735,018</b>	P1,269,739,528
Equity securities	<b>1,011,464,748</b>	1,031,924,878
Government debt securities	<b>2,523,948,663</b>	926,297,898
Equity investments designated as financial assets at FVPL	<u>30,150,000</u>	<u>30,609,000</u>
	<b><u>P5,227,298,429</u></b>	<b><u>P3,258,571,304</u></b>

Dividend income from equity securities and interest income from debt securities are presented as part of Investment Income account in the statements of comprehensive income (see Note 28).

The carrying values of financial assets at FVPL have been determined as follows:

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Balance at beginning of year		<b>P3,258,571,304</b>	P3,461,926,397
Additions		<b>3,309,037,087</b>	1,713,221,055
Maturities and disposals		<b>( 1,308,726,055)</b>	( 1,989,605,056)
Fair value gain (losses)	28	<b>( 14,686,895)</b>	84,192,762
Foreign exchange gains (losses)		<b>( 16,897,012)</b>	( 11,163,854)
 Balance at end of year		 <b><u>P5,227,298,429</u></b>	 <b><u>P3,258,571,304</u></b>

Fair value losses on financial assets at FVPL, which is presented as part of Investment Income account in the statements of comprehensive income, consists of:

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Government debt securities		<b>P 34,266,657</b>	(P 43,575,612)
Equity securities		<b>( 48,953,552)</b>	( 40,617,150)
	28	<b>(P 14,686,895)</b>	(P 84,192,762)

The fair values of equity securities presented above have been determined directly by reference to quote bid prices in active markets (see Note 6.3).

In addition, financial assets at FVPL with carrying amount of P1,308.73 million and P225.43 million matured or were sold in 2020 and 2019, respectively. Accordingly, the related gains and losses from sale of these financial assets are presented under Investment Income account in the statements of comprehensive income (see Note 28).

## 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account consists of:

	<u>2020</u>	<u>2019</u>
Debt securities	<b>P 5,456,822,655</b>	P 4,438,372,753
Equity securities at fair value	<b><u>2,749,827,286</u></b>	<u>3,060,579,453</u>
	<b><u>P 8,206,649,941</u></b>	<b><u>P 7,498,952,206</u></b>

Prior to 2019, the Company has investments in unlisted equity securities carried at fair values, which mainly consists of the Company's investment in shares of stock of CIIF-OMG, including:

- Granexport Manufacturing Corporation (Granex)
- Legaspi Oil Company, Inc. (LegOil)
- San Pablo Manufacturing Corporation (SPMC)
- Southern Luzon Coconut Oil Mills Co., Inc. (SolCom)

As at December 31, 2018, the carrying amount of the Company's investments in UCPB common shares and CIIF-OMG shares amounted to P6.3 billion.

As of December 31, 2018, the Company assessed that these investments are impaired. Relative to this, the Company wrote off portion of its investments in CIIF-OMG and UCPB amounting to P700.62 million in 2018 of which P570.12 million was charged against the related Reserve for Fluctuation of AFS, P63.4 million was charged against the related deferred tax liability, and the remaining amount of P67.1 million was recorded as part of Impairment losses under General and Administrative expense account in the 2018 statement of comprehensive income.

In 2019, the Company decided to write-off the remaining investments in CIIF-OMG and UCPB amounting to P6.30 billion. The Company adjusted this against the balance of deferred tax liabilities, reserve for fluctuation of AFS financial assets and directly to retained earnings amounting to P570.12 million, P5.13 billion, and P604.20 million, respectively. There was no similar transaction in 2020.

In addition, in 2019, the Company has also assessed that its investments in UCPB preferred shares amounting to P100.00 million are already impaired in light of the foregoing. The Company adjusted this impairment loss against the opening balance of Retained Earnings account. There was no similar transaction in 2020.

*AFS Equity Securities at Cost*

In 2011, the Company foreclosed its receivables from Archipelago Finance and Leasing Corporation, an entity under common control, pertaining to the sales of UCPB shares in 2000 up to 2002 amounting to P351.98 million and secured by a pledge on 29,290,224 shares sold. Consequently, the Company's investments in UCPB shares increased from 100,000,000 shares as at December 31, 2010 valued at P100.00 million to 129,290,224 shares as at December 31, 2011 valued at P451.98 million. These stocks are non-participating, nonvoting preferred shares convertible to common shares of UCPB with P1 par value, an affiliated local commercial bank at the option of the holder. These shares are entitled to cumulative dividends of 14% per annum.

A substantial portion of the outstanding shares of stock of UCPB remains sequestered as a result of the sequestration orders previously issued by the PCGG on June 26, 1986. In 2012, the Company redeemed the UCPB shares amounting to P100.00 million from Cocogen, a wholly-owned subsidiary. As of December 31, 2018, the Company has investments in UCPB shares amounting to P603.40 million. In 2019, the Company recognized full impairment of the investments in UCPB shares amounting to P603.40 million. There was no similar transaction in 2020.

The carrying values of AFS financial assets have been determined as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 7,498,952,206</b>	P11,604,723,224
Additions	<b>3,915,032,894</b>	7,140,194,629
Maturities and disposals	<b>( 3,068,945,066)</b>	( 4,923,426,271)
Fair value losses - net	<b>( 130,296,146)</b>	( 4,574,880,546)
Impairment on AFS	<b>-</b>	( 1,739,274,240)
Foreign exchange losses	<b>( 8,093,947)</b>	( 8,384,590)
Balance at end of year	<b><u>P 8,206,649,941</u></b>	<u>P 7,498,952,206</u>

As at December 31, 2020 and 2019, government securities with a total value of P304.86 million and P167.03 million, respectively, are deposited with the IC in accordance with the provision of the Insurance Code as security for the benefit of policyholders and creditors of the Company.

Changes in fair value of AFS financial assets recognized in the statements of comprehensive income as part of Investment Income amounted to P130.30 million loss and P1,169.18 million gain in 2020 and 2019, respectively. The fair values of AFS financial assets have been determined directly by reference to published prices in active market.

Dividend income from equity securities and interest income from debt securities are presented as part of Investment Income account in the statements of comprehensive income (see Note 28).

AFS financial assets with carrying amount of P3.07 billion and P4.92 billion in 2020 and 2019, respectively, were matured or sold. Accordingly, the related gains and losses from sale of these financial assets are presented under Investment Income account in the statements of comprehensive income (see Note 28).

In 2019, in addition to the full impairment of the remaining investments in CIIF-OMG and UCPB amounting to P6.41 billion, the Company has assessed that various equity investments amounting to P1,035.07 million are impaired, due to the significant and prolonged decline of the market price of those shares. The management adjusted these impairment losses against the opening balance of Retained Earnings account instead of recording it in profit or loss as management believes that these investments were already impaired in prior years due to persistent fair value losses incurred from these investments.

As of December 31, 2020, management assessed that there is no additional impairment on its AFS financial assets.

## 11. LOANS AND OTHER RECEIVABLES

This account consists of:

	Note	<u>2020</u>	<u>2019</u>
Mortgage loans		<b>P3,007,815,190</b>	P3,733,402,094
Note receivable		<b>1,555,397,391</b>	1,465,487,345
Policy loans		<b>490,443,855</b>	515,363,730
Claims receivable - farmers		<b>483,021,074</b>	468,981,074
HMO billback		<b>260,462,594</b>	401,982,515
Installment contract receivables		<b>210,926,852</b>	225,001,085
Investment accounts receivable	14	<b>93,869,535</b>	69,514,451
Collateral loans		<b>92,498,355</b>	85,463,330
Advances to officers and employees		<b>40,638,929</b>	44,608,057
Others		<b><u>215,270,423</u></b>	<u>194,100,877</u>
		<b>6,450,344,198</b>	7,203,904,558
Allowance for impairment losses		<b>( 477,985,346)</b>	( 422,657,640)
		<b><u>P5,972,358,852</u></b>	<u>P6,781,246,918</u>

Mortgage loans pertain to receivables in housing loans secured by the property being financed by the loans and collectible in monthly amortizations. Interest rates range from 5.00% to 15.00% in both 2020 and 2019, with terms ranging from five to ten years. Note receivable refers to long-term promissory note without collateral and earns prevailing market interest rate ranging from 6.00% to 24.00% in both 2020 and 2019, respectively.

HMO billback is due from healthcare cardholders under the Third Party Administration accounts or autobill back, wherein the Company initially pays for the medical expenses and subsequently bills the same to the cardholders plus service fee ranging from 7.00% to 12.50% and network access fee. These HMO related revenues are presented as part of Service Fees account in the statements of comprehensive income (see Note 29).

Policy loans pertain to loans issued to policyholders. The loans are issued with collateral of the cash surrender value of the policyholders insurance policies. Interest rates charged are 10.00% for peso and 8.00% for dollar-denominated policies.

Investment accounts receivable pertains mainly to receivables from the sale of investments and dividends receivable on the Company's investments in subsidiaries and an associate. This also includes the amount provided by variable life funds to the Company to partially fund its loan facility. Interest rates of investment accounts receivable range from 6.00% to 9.25% for both years 2020 and 2019.

Installment contract receivables pertain to the outstanding receivable on foreclosed properties sold to third parties. The interest rate ranges from 6.00% to 12.00% for both years 2020 and 2019 with terms ranging from 5 to 15 years in both years.

Collateral loans are loans collectible in monthly amortizations over a period of one to five years, including interest of 6.00% to 21.00%, secured by a chattel mortgage.

Advances to officers and employees are collected through payroll deductions or through expense liquidation.

Total interest income earned from the Company's loans and other receivables amounted to P529.26 million in 2020 and P721.84 million in 2019, and is presented as part of Interest income presented under Investment Income account in the statements of comprehensive income (see Note 28).

The carrying amount of loans and other receivables approximates its fair value as at December 31, 2020 and 2019.

The rollforward analyses of allowance for impairment losses on loans and other receivables are as follows:

	Note Receivable	Mortgage Loans	Investment Accounts Receivable	HMO Billback	Claims Receivable - Farmers	Collateral Loans	Advances to Officers and Employees	Total
Balance at January 1, 2020	P 152,599,557	P 4,354,285	P 13,107,049	P 218,443,207	P 24,508,525	P 5,116,567	P 4,528,450	P 422,657,640
Provisions during the year	11,253,873	-	-	34,628,152	10,000,000	-	-	55,882,025
Write-off	-	-	-	-	-	-	( 554,319)	( 554,319)
Reversal during the year	-	-	-	-	-	-	-	-
<b>Balance at December 31, 2020</b>	<b><u>P 163,853,430</u></b>	<b><u>P 4,354,285</u></b>	<b><u>P 13,107,049</u></b>	<b><u>P 253,071,359</u></b>	<b><u>P 34,508,525</u></b>	<b><u>P 5,116,567</u></b>	<b><u>P 3,974,131</u></b>	<b><u>P 477,985,346</u></b>
Gross amount of loans and receivables, individually deemed impaired	<u>P 163,853,430</u>	<u>P 4,354,285</u>	<u>P 13,107,049</u>	<u>P 253,071,359</u>	<u>P 34,508,525</u>	<u>P 5,116,567</u>	<u>P 3,974,131</u>	<u>P 477,985,346</u>
Balance at January 1, 2019	P 138,174,483	P 4,354,285	P 13,107,049	P 268,443,207	P 24,508,525	P 5,116,567	P 4,824,943	P 458,529,059
Provisions during the year	14,425,074	-	-	-	-	-	-	14,425,074
Write-offs during the year	-	-	-	( 50,000,000)	-	-	( 296,493)	( 296,493)
Reversal during the year	-	-	-	-	-	-	-	( 50,000,000)
<b>Balance at December 31, 2019</b>	<b><u>P 152,599,557</u></b>	<b><u>P 4,354,285</u></b>	<b><u>P 13,107,049</u></b>	<b><u>P 218,443,207</u></b>	<b><u>P 24,508,525</u></b>	<b><u>P 5,116,567</u></b>	<b><u>P 4,528,450</u></b>	<b><u>P 422,657,640</u></b>
Gross amount of loans and receivables, individually deemed impaired	<u>P 152,599,557</u>	<u>P 4,354,285</u>	<u>P 13,107,049</u>	<u>P 218,443,207</u>	<u>P 24,508,525</u>	<u>P 5,116,567</u>	<u>P 4,528,450</u>	<u>P 422,657,640</u>



In 2020 and 2019, the Company recognized provision for impairment losses based on the Company's assessment of the individual balances of different receivables. Such impairment losses were recognized as part of Impairment losses under General and Administrative Expenses account in the statements of comprehensive income (see Note 31).

## 12. ACCRUED INCOME

This account consists of:

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Interest receivable		<b>P 74,406,993</b>	P 79,977,827
Allowance for impairment losses		<u>( 245,494)</u>	<u>( 245,480)</u>
		<b>74,161,499</b>	79,732,347
Dividend receivable	14	<b>4,454,012</b>	5,826,145
Rent receivable		<u>803,822</u>	<u>2,249,863</u>
		<b><u>P 79,419,333</u></b>	<b><u>P 87,808,355</u></b>

Interest receivable includes accrued interest arising from short-term investments, debt securities classified as financial assets at FVPL, debt securities under AFS financial assets, and loans and other receivables.

There was no movement in the allowance for impairment losses on accrued income in 2019.

## 13. REINSURANCE ASSETS

This account consists of:

	<u>2020</u>	<u>2019</u>
Reinsurers' share on legal policy reserves	<b>P 6,728,529</b>	P 5,092,594
Reinsurance recoverable on unpaid losses	<u>3,160,170</u>	<u>300,000</u>
	<b><u>P 9,888,699</u></b>	<b><u>P 5,392,594</u></b>

The movements of reinsurance recoverable on unpaid losses are as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 300,000</b>	P 14,572,374
Claims incurred during the year	<b>3,110,170</b>	5,818,207
Claims paid during the year	<u>( 250,000)</u>	<u>( 20,090,581)</u>
Balance at end of year	<b><u>P 3,160,170</u></b>	<b><u>P 300,000</u></b>

The movements of reinsurers' share on legal policy reserves are as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 5,092,594</b>	P 5,054,048
Premiums received	<b>11,634,589</b>	7,717,004
Liability released for payments of death, maturity and surrender benefits and claims	<b>( 9,998,654)</b>	<b>( 7,678,458)</b>
Balance at end of year	<b><u>P 6,728,529</u></b>	<b><u>P 5,092,594</u></b>

#### 14. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

As of December 31, 2020 and 2019, this account consists of:

	<u>2020</u>	<u>2019</u>
Subsidiaries:		
Cocogen	<b>P 801,794,875</b>	P 651,794,875
Cocoplans	<b>546,228,789</b>	476,469,480
CAMCI	<b>50,000,000</b>	50,000,000
Ultra	<b>13,983,155</b>	13,983,155
Healthassist	<b>10,000,000</b>	10,000,000
	<b><u>1,422,006,819</u></b>	<u>1,202,247,510</u>
Associate –		
Direct Link	<b>4,000,000</b>	4,000,000
	<b><u>1,426,006,819</u></b>	<u>1,206,247,510</u>
Allowance for impairment losses	<b>( 262,358,087)</b>	<b>( 262,358,087)</b>
	<b><u>P1,163,648,732</u></b>	<b><u>P 943,889,423</u></b>

The movement in the allowance for impairment loss is as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 262,358,087</b>	P 211,476,967
Impairment loss	<b>-</b>	<u>50,881,120</u>
Balance at end of year	<b><u>P 262,358,087</u></b>	<b><u>P 262,358,087</u></b>

The Company has an additional capital infusion with Cocogen and Cocoplans amounting to P150.00 million and P69.76 million, respectively, in 2020 for a total of P219.76 million, and with CAMCI and Cocoplans amounting to P37.50 million and P27.87 million, respectively, in 2019 for a total amount of P65.37 million.

As of December 31, 2019, the Company assessed that its investments in Cocoplans is impaired by P50.88 million. Management adjusted retroactively this impairment loss against the opening balance of Retained Earnings account as management believes that this investment was already impaired in prior years due to continuing losses of this subsidiary.

The unaudited key financial information of the significant subsidiaries are as follows:

	<u>Cocogen</u>	<u>Cocoplans</u>	<u>Ultra</u>	<u>CAMCI</u>	<u>Healthassist</u>	<u>Total</u>
<b>2020</b>						
Total assets	P 5,149,149,000	P1,106,823,360	P 91,739,096	P 64,344,121	P 15,746,575	P 6,427,802,152
Total liabilities	3,750,207,000	1,063,146,429	54,041,141	10,363,622	1,595,096	4,879,353,288
Equity	1,398,942,000	43,676,931	37,697,955	53,980,499	14,151,479	1,548,448,864
Revenues	2,882,961,000	255,764	248,972,000	41,866,670	6,380,563	3,180,435,997
Net income (loss)	( 176,803,000 )	( 55,329,890 )	13,350,000	6,500,514	( 289,930 )	( 212,572,306 )
Other comprehensive income (loss)	-	-	-	-	548,186	548,186
Total comprehensive income (loss)	( 176,803,000 )	( 55,329,890 )	13,350,000	6,500,514	258,256	( 212,024,120 )
<b>2019</b>						
Total assets	P 4,817,166,000	P1,298,110,699	P 60,296,467	P 57,662,410	P 14,500,042	P 6,247,735,618
Total liabilities	3,440,149,000	1,303,134,628	35,832,202	5,142,425	553,445	4,784,811,700
Equity	1,377,017,000	( 5,023,929 )	24,464,265	52,479,985	13,946,597	1,462,883,918
Revenues	3,424,790,000	680,305	222,122,000	47,812,235	10,069,801	3,705,474,341
Net income (loss)	110,620,000	( 54,752,771 )	8,722,000	12,238,639	539,556	77,367,424
Other comprehensive income (loss)	-	( - )	-	-	931,243	931,243
Total comprehensive income (loss)	110,620,000	( 54,752,771 )	8,722,000	12,238,639	1,470,799	78,298,668

Dividend income from the Company's subsidiaries and an associate amounted to P12.50 million and P25.00 million in 2020 and 2019, respectively, and is presented as part of Investment Income account in the statements of comprehensive income (see Note 28).

On the other hand, dividend receivable as of December 31, 2020 and 2019 is included as part of Accrued Income account and Investment accounts receivable under Loans and Other Receivables account in the statements of financial position (see Notes 12 and 11).

## 15. REAL ESTATE INVENTORIES

The movements in this account are as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	P 17,699,636	P 20,081,136
Disposals	( 2,035,000 )	( 2,381,500 )
Balance at end of year	<u>P 15,664,636</u>	<u>P 17,699,636</u>

In 2020 and 2019, total gain from sale of columbarium units amounted to P1.98 million and P2.90 million, respectively, and is presented as part of Other Income account in the statements of comprehensive income (see Note 28).

Management determined that these properties' NRV, which are higher than their costs, amounted to P18.12 million and P24.78 million as at December 31, 2020 and 2019, respectively. Management determines the properties' NRV based on the asset's estimated net selling price.

## 16. INVESTMENT PROPERTIES

The gross amounts and accumulated depreciation of investment properties at the beginning and end of 2020 and 2019 are shown below.

	<u>2020</u>	<u>2019</u>
Acquisition cost	<b>P 936,602,125</b>	P 959,112,153
Accumulated depreciation	<b>( 121,265,549)</b>	( 109,684,329)
Carrying amount	<b><u>P 815,336,576</u></b>	<u>P 849,427,824</u>

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

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Balance at beginning of year, net of accumulated depreciation		<b>P 849,427,824</b>	P 853,098,151
Additions		<b>16,974,887</b>	57,519,905
Disposals		<b>( 35,849,496)</b>	( 65,925,289)
Reclassifications	17	-	44,435,937
Depreciation charges for the year	31	<b>( 15,216,639)</b>	( 39,700,880)
Balance at end of year, net of accumulated depreciation		<b><u>P 815,336,576</u></b>	<u>P 849,427,824</u>

As at December 31, 2020 and 2019, the estimated fair value of these investment properties amounted to P1.48 billion and P1.88 billion, respectively.

The fair values of investment properties were arrived at using the Market Data Approach and classified as Level 2 in the fair value hierarchy (see Note 6.5).

In 2020 and 2019, the Company sold investment properties with a carrying value of P27.67 million and P53.27 million, respectively. Gain on sale of investment properties in 2020 and 2019 amounting to P8.01 and P8.63 million, respectively was recognized under Investment Income in the statements of comprehensive income (see Note 28).

Rental income in 2020 and 2019 arising from the lease of investment properties amounted to P32.31 million and P29.80 million, respectively, which are presented as Rental Income under the Investment Income account in the statements of comprehensive income (see Note 28). Operating expenses, including depreciation expense, arising from these investment properties amounted to P15.22 million and P39.70 million in 2020 and 2019, respectively (see Note 31).

## 17. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of December 31, 2020 and 2019 are shown below:

	<u>Land</u>	<u>Building and Leaschold Improvements</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Total</u>
<b>December 31, 2020</b>					
Cost	P 12,665,400	P 267,262,482	P 93,589,383	P 280,200,167	P 653,717,432
Accumulated depreciation and amortization	-	( 221,187,737 )	( 58,205,943 )	( 207,370,920 )	( 486,764,600 )
<b>Net carrying amount</b>	<b><u>P 12,665,400</u></b>	<b><u>P 46,074,745</u></b>	<b><u>P 35,383,440</u></b>	<b><u>P 72,829,247</u></b>	<b><u>P 166,952,832</u></b>
<b>December 31, 2019</b>					
Cost	P 12,665,400	P 255,241,823	P 92,515,892	P 246,716,197	P 607,139,312
Accumulated depreciation and amortization	-	( 206,175,634 )	( 49,165,392 )	( 196,971,813 )	( 452,312,839 )
<b>Net carrying amount</b>	<b><u>P 12,665,400</u></b>	<b><u>P 49,066,189</u></b>	<b><u>P 43,350,500</u></b>	<b><u>P 49,744,384</u></b>	<b><u>P 154,826,473</u></b>
<b>January 1, 2019</b>					
Cost	P 38,000,000	P 272,592,966	P 77,796,686	P 215,875,602	P 604,265,254
Accumulated depreciation and amortization	-	( 213,772,917 )	( 45,378,527 )	( 186,660,200 )	( 445,811,644 )
<b>Net carrying amount</b>	<b><u>P 38,000,000</u></b>	<b><u>P 58,820,049</u></b>	<b><u>P 32,418,159</u></b>	<b><u>P 29,215,402</u></b>	<b><u>P 158,453,610</u></b>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of December 31, 2020 and 2019 is shown below.

	<u>Land</u>	<u>Buildings and Leaschold Improvements</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Total</u>
<b>Balance at January 1, 2020</b> net of accumulated depreciation and amortization	P 12,665,400	P 49,066,189	P 43,350,500	P 49,744,384	P 154,826,473
Additions	-	17,357,261	5,173,900	40,363,874	62,895,035
Disposals	-	( 5,336,602 )	( 4,100,409 )	( 6,303,168 )	( 15,740,179 )
Depreciation and amortization charges for the year	-	( 15,012,103 )	( 9,040,551 )	( 10,975,843 )	( 35,028,497 )
<b>Balance at December 31, 2020</b> net of accumulated depreciation and amortization	<b><u>P 12,665,400</u></b>	<b><u>P 46,074,745</u></b>	<b><u>P 35,383,440</u></b>	<b><u>P 72,829,247</u></b>	<b><u>P 166,952,832</u></b>
<b>Balance at January 1, 2019</b> net of accumulated depreciation and amortization	P 38,000,000	P 58,820,049	P 32,418,159	P 29,215,402	P 158,453,610
Additions	-	38,933,406	23,195,000	31,715,321	93,843,727
Disposals	-	( 12,305,636 )	( 8,475,794 )	( 874,725 )	( 21,656,155 )
Transfers	( 25,334,600 )	( 19,101,337 )	-	-	( 44,435,937 )
Depreciation and amortization charges for the year	-	( 17,280,293 )	( 3,786,865 )	( 10,311,614 )	( 31,378,772 )
<b>Balance at December 31, 2019</b> net of accumulated depreciation and amortization	<b><u>P 12,665,400</u></b>	<b><u>P 49,066,189</u></b>	<b><u>P 43,350,500</u></b>	<b><u>P 49,744,384</u></b>	<b><u>P 154,826,473</u></b>

In 2019, the Company has reclassified a portion of its building from Property and Equipment to Investment Property amounting to P44.44 million (see Note 16).

All the depreciation and amortization charges were reported as part of Depreciation and amortization under General and Administrative Expense account in the statements of comprehensive income (see Note 31).

The Company recognized a gain on disposal of property and equipment totalling P0.19 million and P0.99 million in 2020 and 2019, respectively (see Note 28).

As of December 31, 2020 and 2019, the gross carrying amount of the Company's fully depreciated property and equipment that are still in use is P474.48 million and P441.20 million, respectively.

## 18. LEASES

The Company has leases for certain office spaces. With the exception of short-term leases, each lease is reflected on the 2020 and 2019 statement of financial position as a Right-of-use Assets (see Note 18.1) and Lease Liabilities (see Note 18.2). Variable lease payments which do not depend on an index or rate are excluded from the initial measurement of the right-of-use asset and lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantial termination fee. Some leases contain an option to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office spaces, the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The Company's leasing activities on office spaces have remaining terms ranging from 1-54 months, with an average remaining lease term of 37 months.

### 18.1 Right-of-use Assets

The carrying amount of the Company's right-of-use assets as at December 31, 2020 and 2019 and the movements during the year are shown below.

	Note	<u>2020</u>	<u>2019</u>
Balance at the beginning of the year		P 64,082,142	P 43,037,448
Additions during the year		7,966,480	54,757,905
Amortization charges during the year	31	( 30,729,550)	( 33,713,211)
Balance at end of year		<u>P 41,319,072</u>	<u>P 64,082,142</u>

### 18.2 Lease Liabilities

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities, which is recognized as Lease Liabilities in the 2020 and 2019 statement of financial position as at December 31, 2020 and 2019 of the Company are as follows:

	<u>2020</u>	<u>2019</u>
Within one year	P 27,467,958	P 30,310,808
After one year but not more than five years	<u>16,474,927</u>	<u>35,820,739</u>
	<u>P 43,942,885</u>	<u>P 66,131,547</u>

The total cash outflow in respect of leases amounted to P24.98 million and P35.36 million in 2020 and 2019, respectively. Interest expense in relation to lease liabilities amounted to P2.80 million and P3.69 million which is presented as Interest expense on lease liability under General and Administrative Expenses account the 2020 and 2019 statement of comprehensive income, respectively (see Note 31).

### ***18.3 Lease Payments Not Recognized as Liabilities***

The Company has elected not to recognize lease liabilities for short-term leases. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expenses relating to short-term leases amounted to P26.38 million and P48.46 million which are presented as part of Rent expense and utilities under General and Administrative Expenses account in the 2020 and 2019 statement of comprehensive income, respectively (see Note 31).

## **19. INTANGIBLE ASSETS**

Intangible assets pertain to acquired computer software licenses used in operation and administration. The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of December 31, 2020 and 2019 follow:

	<u>2020</u>	<u>2019</u>
Acquisition cost	<b>P 188,766,034</b>	P 174,412,011
Accumulated amortization	<b>( 144,615,493)</b>	( 133,538,760)
Carrying amount	<b><u>P 44,150,541</u></b>	<u>P 40,873,251</u>

A reconciliation of the carrying amounts at the beginning and end of 2020 and 2019, of intangible assets is shown below.

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Balance at beginning of year, net of accumulated amortization		<b>P 40,873,251</b>	P 5,417,569
Additions		<b>14,354,023</b>	37,403,488
Amortization charges for the year	31	<b>( 11,076,733)</b>	( 1,947,806)
Balance at end of year, net of accumulated amortization		<b><u>P 44,150,541</u></b>	<u>P 40,873,251</u>

## 20. OTHER ASSETS

The composition of this account is shown below:

	<u>2020</u>	<u>2019</u>
Prepaid expense	<b>P 223,135,697</b>	P 208,828,699
Bureau of Internal Revenue (BIR) tax credits	<b>170,038,863</b>	226,888,713
Lease and leasehold deposits	<b>34,780,195</b>	33,853,442
Refundable deposits	<b>21,484,938</b>	20,307,123
Deferred charges	<b>14,032,393</b>	14,376,851
Contingency fund pool	<b>7,691,984</b>	7,682,511
Laboratory supplies inventory	<b>3,427,822</b>	3,304,880
Others	<b>4,234,440</b>	4,395,340
	<b><u>P 478,826,332</u></b>	<b><u>P 519,637,559</u></b>

Prepaid expense includes access fee paid on the bancassurance arrangement with UCPB Savings and UCPB entered by the Company in 2019. In 2019, the Company paid non-refundable access fee amounting to P105.00 million. Non-refundable access fee pertains to the upfront access fee payable upon the signing of the agreement. In 2019, refundable access fee is paid to UCPB amounting to P105.00 million. Refundable access fee is related to the satisfaction of the performance targets set forth by both parties. Moreover, the earned portion are redeemable at the end of each year while the unearned portion will be refunded at the conclusion of the agreement period.

Refundable deposits are lease deposits that can be refunded at the end of the lease term. Lease and leasehold deposits consist of security lease deposits that can be applied at the end of the lease term.

## 21. INSURANCE CONTRACT LIABILITIES

The composition of this account is shown below.

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Legal policy reserves	3.2(a)	<b>P16,847,131,230</b>	P15,114,055,929
Policy and contract claims	3.2(b)	<b>2,062,470,085</b>	1,711,164,305
		<b><u>P18,909,601,315</u></b>	<b><u>P16,825,220,234</u></b>

Total IBNR recognized by the Company amounted to P1,201.72 million and P1,038.30 million as at December 31, 2020 and 2019, respectively, which form part of Policy and contract claims account [see Note 3.2(b)].



The movements in legal policy reserves are as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P15,114,055,929</b>	P13,214,041,992
Premiums received	<b>4,901,400,504</b>	6,250,754,128
Liability released for payments of death, maturity and surrender benefits and claims	<b>( 5,549,061,271)</b>	<b>( 6,179,461,655)</b>
Accretion of investments income or change in unit prices	<b>863,001,210</b>	1,073,217,718
Adjustment due to change in assumptions Investment return	<b>1,517,546,390</b>	887,600,924
Others	<b><u>188,468</u></b>	<b><u>( 132,097,178)</u></b>
Balance at end of year	<b><u>P16,847,131,230</u></b>	<b><u>P15,114,055,929</u></b>

The movements in policy and contract claims are as follows:

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Balance at beginning of year		<b>P 1,711,164,305</b>	P 1,429,733,246
Incurred during the year	30	<b>3,601,495,571</b>	4,467,371,295
Paid during the year		<b><u>( 3,250,189,791)</u></b>	<b><u>( 4,185,940,236)</u></b>
Balance at end of year		<b><u>P 2,062,470,085</u></b>	<b><u>P 1,711,164,305</u></b>

As at December 31, 2020 and 2019, assets held to cover unit-linked liabilities amounting to P1.81 billion and P1.48 billion, respectively, are held in the Company's separately managed funds, namely, Peso Fixed Income and Dollar Growth Fund, Dollar Bond Fund, Peso Equity Fund, Peso Fixed Income Fund and Peso Bond Fund (see Note 37).

## 22. RESERVE FOR POLICYHOLDERS' DIVIDENDS

The movements in this account is shown below.

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 197,463,689</b>	P 191,724,568
Net increase during the year	<b><u>10,429,876</u></b>	<u>5,739,121</u>
Balance at end of year	<b><u>P 207,893,565</u></b>	<b><u>P 197,463,689</u></b>

## 23. PREMIUM DEPOSIT FUNDS

The composition of this account are shown below.

	<u>2020</u>	<u>2019</u>
Premium deposits	<b>P 749,331,959</b>	P 543,249,070
HMO guarantee deposits	<b>87,472,060</b>	56,542,097
Premium deposit fund	<b>52,327,576</b>	59,537,724
Fund builder rider	<b>39,654,651</b>	41,808,352
Claims deposit	<b><u>15,847,816</u></b>	<u>18,169,444</u>
	<b><u>P 944,634,062</u></b>	<b><u>P 719,306,687</u></b>

## 24. INSURANCE PAYABLES

The movements in this account are shown below.

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 40,620,165</b>	P 74,102,265
Incurred during the year	<b>20,090,541</b>	14,477,177
Paid during the year	<b>( 21,993,786)</b>	( 47,987,312)
Foreign exchange loss	<b>45,296</b>	28,035
Balance at end of year	<b><u>P 38,762,216</u></b>	<b><u>P 40,620,165</u></b>

## 25. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

These accounts consist of:

	<u>2020</u>	<u>2019</u>
Accounts payable and accrued expenses:		
Accounts payable	<b>P 1,161,627,523</b>	P 1,005,599,030
Accrued incentives and bonuses	<b>405,387,518</b>	214,111,712
Loading payables	<b>196,127,111</b>	152,841,928
Supplementary contracts without life contingency	<b>38,124,470</b>	32,189,395
Investment accounts payable	<b>32,092,497</b>	13,597,172
Agents' fidelity and annuity reserves	<b><u>3,721,834</u></b>	<b><u>3,657,919</u></b>
	<b><u>P1,837,080,953</u></b>	<b><u>P1,421,997,156</u></b>
Other liabilities:		
Deferred credits	<b>P 68,159,516</b>	P 42,135,205
Taxes payable	<b>30,434,734</b>	33,391,231
Others	<b><u>865,979</u></b>	<b><u>43,674,011</u></b>
	<b><u>P 99,460,229</u></b>	<b><u>P 119,200,447</u></b>

Accounts payable consists mainly of unpaid commissions, supplies, utilities, postal and communication, professional fees, repairs and maintenance, and security services that are due and demandable.

Investments accounts payable represent funds received from both related parties and third parties to partially fund its loan financing facility. These amounts charge interest ranging from 6.00% to 9.25% in 2020 and 2019, respectively. Interest expense incurred on these loans amounted to P150.58 million and P158.27 million in 2020 and 2019, respectively was presented under Investment expenses in the statements of comprehensive income (see Note 28).

Accrued incentives and bonuses represent amounts payable to employees computed based on current salary and length of service. These amounts are due to be paid within one year after the reporting date.

Loading payables refer to the portion of gross premium due and uncollected which is expected to be paid out in the form of commission, service fees, overrides and taxes.

Supplementary contracts without life contingency represent claims which are held by the Company and are paid in monthly installments in the form of pension benefits. These claims earn interest of 6.06% annually.

Agents' fidelity and annuity reserves represent amounts withheld from agents which are refunded upon resignation or termination.

Taxes payable consist mainly of Value-Added Tax (VAT) payable, withholding taxes from the employees' compensation and purchases from suppliers which are subsequently remitted within one month after the reporting date.

Deferred credits represent reservation deposits which are refunded upon consumption of sale of investment properties and real estate inventories.

Others under Other liabilities in the statements of financial position are noninterest-bearing liabilities and are due and demandable.

## 26. EQUITY

### *26.1 Capital Stock*

As at December 31, 2020 and 2019, the Company has authorized shares of 1,000,000,000 and has issued and outstanding shares amounted to P550.00 million with a par value of P1 per share.

As of December 31, 2020 and 2019, the Company has 254,615 stockholders owning 100 or more shares each of the Company's capital stock.

### *26.2 Retained Earnings*

As at December 31, 2020, the Company's unappropriated retained earnings of P4.18 billion is in excess of its paid-up capital of P550.00 million. The Company's plan to use the excess retained earnings is dependent on the impact of the following to the Company:

- a. IC's directive to calculate the reserves for traditional life insurance policies using the GPV; and,
- b. amendments currently being implemented by the IC with respect to the risk based capital requirement.

As at December 31, 2020 and 2019, the Company has appropriated retained earnings amounting to P42.60 million and P54.14 million, respectively. This is equivalent to the negative legal policy reserves calculated on traditional life insurance policies as mandated by IC through its issuance of CL No. 2016-66 (see Note 2.20).

As of December 31, 2020 and 2019, the unappropriated retained earnings of the Company has already exceeded the paid-in capital stock. This violates Section 42 of the Revised Corporation Code, which specifically indicates that “stock corporations are prohibited from retaining surplus profits in excess of 100 percent of their paid-in capital stock, except: (1) when justified by definite corporate expansion projects or programs approved by the BOD; or (2) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its/ his consent, and such consent has not yet been secured; or (3) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is a need for special reserve for probable contingencies.”

Accordingly, on May 22, 2018, the Company submitted a letter to SEC to seek consideration and exemption on assessments or penalties pertaining to the said violation, until such time that the ownership issue of the Company is resolved by the courts and its stockholders are clearly identified. This is in relation to the pending case wherein government is claiming 100% ownership of Cocolife, on the ground that the Company was allegedly formed using coco levy funds which are public funds.

In view of the pendency of the case and until final determination by the courts on the issue of ownership of the Company, the Company is hard put to comply with Section 43, as well as with Section 52 of the Revised Corporation Code, *Regular and Special Meetings of Stockholders or Members*, in a quandary on whom to make dividend declarations. However, despite of the violation of Section 50, the Company is still substantially compliant as the Company is classified by the Governance Commission as a government-owned and controlled corporation, under supervision of Presidential Commission on Good Government, which oversight the Company’s operations to ensure that the interests of the stockholders are protected.

## 27. NET INSURANCE PREMIUMS

	<u>2020</u>	<u>2019</u>
Direct:		
Accident and health	P4,422,127,167	P4,199,495,841
Group life insurance	1,067,918,774	1,456,440,236
Ordinary life insurance	821,065,913	1,138,851,214
Unit-linked	<u>97,813,628</u>	<u>165,096,459</u>
	6,408,925,482	6,959,883,750
Assumed group life insurance	<u>68,766,821</u>	<u>113,102,620</u>
	<b><u>P6,477,692,303</u></b>	<b><u>P7,072,986,370</u></b>
Reinsurance premiums ceded:		
Group life insurance	P 8,455,952	P 1,769,064
Ordinary life insurance	<u>11,634,589</u>	<u>6,889,906</u>
Total reinsurers’ share of life insurance contract premium reserve	<b><u>P 20,090,541</u></b>	<b><u>P 8,658,970</u></b>

28. INVESTMENT INCOME, INVESTMENT EXPENSES AND OTHER INCOME

Investment income account consists of:

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Interest income on:			
Loans and other receivables	11	P 444,780,050	P 690,886,597
AFS financial assets	10	196,912,530	148,351,615
Financial assets at FVPL	9	95,840,607	42,767,770
Cash and cash equivalents	7	62,427,915	127,921,721
Others:			
Gain on sale of AFS financial assets	10	159,917,868	159,082,792
Dividend income	9, 10, 14	79,775,771	109,752,584
Rental income	16	32,308,182	29,802,732
Unrealized fair value gains (losses) on financial assets at FVPL - net	9	( 14,686,895)	84,192,762
Gain on sale of financial assets at FVPL	9	8,260,299	82,159
Gain on sale of investment properties	16	8,011,249	8,634,227
		<u>P 1,073,547,576</u>	<u>P 1,401,474,959</u>

Investment expenses account consists of:

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Interest expense	25	P 150,575,479	P 158,275,046
Foreclosed property		14,884,990	15,097,575
Management fee		27,287,286	11,558,656
Others		34,203,118	80,187,160
		<u>P 226,950,873</u>	<u>P 265,118,437</u>

Other income account consists of:

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Income from variable life funds		P 1,741,770,782	P 499,778,278
Gain on sale of real estate inventories	15	1,977,893	2,909,714
Gain on sale of property and equipment	17	194,919	997,997
		<u>P 1,743,943,594</u>	<u>P 503,685,989</u>

**29. SERVICE FEES**

This account consists of:

	<u>Note</u>	<u>2020</u>	<u>2019</u>
HMO fees	11	<b>P 280,371,037</b>	P 406,435,709
Policy fees		<b>26,708,073</b>	24,040,771
Cancellation fees		<u><b>5,600,763</b></u>	<u>8,167,989</u>
		<u><b>P 312,679,873</b></u>	<u>P 438,644,469</u>

**30. NET INSURANCE BENEFITS AND CLAIMS**

Gross benefits and claims paid on insurance contracts consist of:

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Accident and health		<b>P2,552,456,315</b>	P3,211,883,803
Group life insurance		<b>562,594,723</b>	751,572,202
Maturities and surrenders		<b>408,016,169</b>	416,812,118
Ordinary life insurance		<u><b>78,428,364</b></u>	<u>87,103,172</u>
	21	<u><b>P3,601,495,571</b></u>	<u>P 4,467,371,295</u>

Changes in life insurance contract liabilities follow:

	<u>Gross change in Insurance Contract Liabilities</u>	<u>Reinsurers' Share of Change in Insurance Contract Liabilities</u>	<u>Total</u>
<b><u>2020</u></b>			
Group life insurance	(P 179,784,676 )	P -	(P 179,784,676 )
Ordinary life insurance	146,256,610	( 1,635,936)	144,620,674
Accident and health	78,262,290	-	78,262,290
Foreign exchange loss	<u>30,478,027</u>	<u>-</u>	<u>30,478,027</u>
	<u><b>P 75,212,251</b></u>	<u><b>(P 1,635,936)</b></u>	<u><b>P 73,576,315</b></u>
<b><u>2019</u></b>			
Ordinary life insurance	P 756,368,007	P 38,546	P 756,406,553
Accident and health	215,042,365	-	215,042,365
Group life insurance	40,184,018	-	40,184,018
Foreign exchange loss	<u>21,102,441</u>	<u>-</u>	<u>21,102,441</u>
	<u><b>P1,032,696,831</b></u>	<u><b>P 38,546</b></u>	<u><b>P 1,032,735,377</b></u>

Reinsurer's share on benefits and claims consist of reinsurance recoveries from group and individual life insurance amounting to P1.51 million and P1.60 million, respectively as of December 31, 2020.

### 31. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Salaries and employee benefits	32.1	<b>P 601,020,498</b>	P 463,275,871
Insurance cost		<b>327,813,011</b>	509,122,704
Advertising and promotions		<b>264,258,760</b>	175,907,382
HMO miscellaneous expenses		<b>204,177,550</b>	296,595,295
Depreciation and amortization	16, 17, 18, 19	<b>91,404,929</b>	86,575,492
Entertainment, amusement and recreation		<b>77,822,416</b>	17,392,939
Utilities		<b>58,286,837</b>	57,335,051
Impairment losses	10, 11, 16	<b>55,882,040</b>	14,423,571
Training and development		<b>40,036,934</b>	33,949,030
Taxes and licenses		<b>37,475,762</b>	22,390,439
Printing and office supplies		<b>33,525,091</b>	30,849,772
Professional fees		<b>26,789,708</b>	30,591,294
Rent expense	18	<b>26,384,816</b>	48,459,851
Service fees		<b>24,213,110</b>	24,406,117
Repairs and maintenance		<b>23,604,810</b>	20,187,456
Transportation and travel		<b>22,290,576</b>	15,236,590
Postage and telephone		<b>20,004,977</b>	23,822,444
Meeting and conferences		<b>15,782,598</b>	18,113,353
Directors' fees		<b>12,068,600</b>	7,715,707
Donations and contributions		<b>6,000,000</b>	8,500,000
Insurance		<b>3,635,498</b>	5,688,954
Interest expense on lease liabilities	18	<b>2,795,892</b>	3,697,558
Condominium dues		<b>1,206,721</b>	1,144,122
Agency development allowance		<b>805,770</b>	418,532
Medical fees		<b>621,034</b>	1,321,828
Bancassurance expenses		<b>3,500</b>	21,895
Miscellaneous expense		<b>8,694,488</b>	8,578,820
		<b><u>P 1,986,605,926</u></b>	<b><u>P 1,925,722,067</u></b>

Miscellaneous expenses pertain to inspection and investigation expenses, collection fees, referral fees and other expenses.

### 32. EMPLOYEE BENEFITS

#### *32.1 Salaries and Employee Benefits Expense*

Details of salaries and employee benefits are presented below.

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Salaries and wages		<b>P 530,519,206</b>	P 400,941,727
Other short-term employee benefits		-	10,582,307
Retirement benefit	32.2	<b>73,864,282</b>	51,751,837
	31	<b><u>P 604,383,488</u></b>	<b><u>P 463,275,871</u></b>

### 32.2 Retirement Benefit

#### (i) Characteristics of the Defined Benefit Plan

The Company has a funded, non-contributory, defined benefit plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2019. Valuations are obtained on a periodic basis.

The plan is registered with the BIR as a tax-qualified plan under RA No. 4917 *An Act Providing That Retirement Benefits of Employees of Private Firms Shall Not Be Subject to Attachment, Levy, Execution, or Any Tax Whatsoever*, as amended. The control and administration of the plan is vested in the BOD. The plan's accounting and administrative functions are undertaken by the Company's Retirement Funds Office.

#### (ii) 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 for the years ended December 31, 2020 and 2019 are based on the actuarial report obtained from an independent actuary in both years.

The amounts of retirement benefit obligation recognized as net pension liability in the statements of financial position are determined as follows:

	<u>2020</u>	<u>2019</u>
Present value of retirement benefit obligation	P 892,217,243	P 839,721,426
Fair value of plan assets	( 802,251,630)	( 709,657,217)
	<u>P 89,965,613</u>	<u>P 130,064,209</u>

The movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	P 839,721,426	P 671,305,716
Current service cost	64,037,101	44,460,894
Interest expense	41,734,155	49,273,840
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	( 60,069,128)	159,739,415
Experience adjustments	52,628,157	( 25,621,390)
Benefits paid	( 45,834,468)	( 59,437,049)
Balance at end of year	<u>P 892,217,243</u>	<u>P 839,721,426</u>



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

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	P 709,657,217	P 571,974,076
Interest income	35,269,964	41,982,897
Contributions paid by employer	104,905,315	140,609,560
Return on plan assets (excluding amounts included in net interest cost or income)	( 1,746,398)	14,527,733
Benefits paid	( 45,834,468)	( 59,437,049)
Balance at end of year	<u>P 802,251,630</u>	<u>P 709,657,217</u>

The plan earned a return of P43.31 million in 2020 and incurred a negative return of P56.51 million in 2019.

The Company's plan assets are maintained and consolidated under the Group Plan. The composition of the fair value of the plan assets at the end of the reporting period by category and risk characteristics is shown below.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	P 235,335,654	P 183,817,527
Available-for-sale securities:		
Equity investments	307,812,111	278,300,833
Debt instruments	240,931,011	210,203,033
Financial assets at amortized cost	19,928,498	34,928,498
Accrued interest income from financial assets	1,803,278	2,148,059
Other assets	682,558	620,910
Accounts payable and accrued expenses	( 4,241,480)	( 361,643)
	<u>P 802,251,630</u>	<u>P 709,657,217</u>

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

Plan assets do not comprise any of the Company's own financial instruments or any of its assets occupied and/or used in its operations.

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

	<u>2020</u>	<u>2019</u>
<i>Reported in profit or loss:</i>		
Current service cost	P 64,037,101	P 44,460,894
Net interest cost	<u>6,464,191</u>	<u>7,290,943</u>
	<u>P 70,501,292</u>	<u>P 51,751,837</u>

	<u>2020</u>	<u>2019</u>
<i>Reported in other comprehensive income:</i>		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	(P 60,069,128)	P 159,739,415
Experience adjustments	52,628,157	( 25,621,390)
Return on plan assets (excluding amounts included in net interest cost or income)	<u>1,746,398</u>	<u>( 14,527,733)</u>
	<u>(P 5,694,573)</u>	<u>P 119,590,292</u>

Current service cost is included as part of Salaries and employee benefits under General and Administrative Expenses account in the statements of comprehensive income (see Note 31). The net interest expense or net interest income is lumped or netted against the Retirement benefits under Salaries and Employee Benefits Expense account in the statements of comprehensive income (see Note 32.1).

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

In determining the amounts of the defined benefit retirement obligation, the following significant actuarial assumptions were used and applied to the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Discount rates	3.90%	4.97%
Expected rate of salary increases	4.00%	6.00%

Assumptions regarding the mortality and disability rates used were based on the 1980 CSO Mortality Table and 1952 Ben-5 Disability Study, respectively.

The weighted-average duration of the defined benefit obligation is 32.35 years and 31.60 years as at December 31, 2020 and 2019, respectively.

*(iii) 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.

*(iv) Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

(v) *Longevity and Salary Risks*

The present value of the defined benefit obligation 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.

(vi) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Company's ALM strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(vii) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2020 and 2019:

	<u>Impact on Retirement Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>December 31, 2020</u>			
Discount rate	+/- 1%	(P 71,491,576)	P 84,520,522
Salary growth rate	+/- 1%	76,478,086	( 65,994,830)
<u>December 31, 2019</u>			
Discount rate	+/- 1%	(P 75,095,399)	P 91,292,837
Salary growth rate	+/- 1%	88,240,163	( 75,058,289)

The above 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 defined benefit obligation 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 defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(viii) *ALM Strategies*

To efficiently manage the retirement plan, the Company ensures that the investment positions are managed in accordance with its ALM strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government) with maturities that match the benefit payments as they fall due and in the appropriate currency.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A significant portion of the plan assets as of December 31, 2020 and 2019 consist of equity and debt securities. The Company believes that debt securities offer the best returns over the long term with an acceptable level of risk although the Company also invests in equity securities and cash and cash equivalents.

There has been no change in the Company's strategies to manage its risks from previous periods.

*(ix) Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P89.97 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to ssretire.

The Company expects to make contribution of P99.00 million to the plan during the next reporting period.

**33. INCOME TAX**

***33.1 Current and Deferred Taxes***

The components of tax expense (income) as reported in profit or loss and other comprehensive income for the years ended December 31 are as follows:

	<u>2020</u>	<u>2019</u>
<i>Reported in profit and loss</i>		
Current tax expense:		
Regular corporate		
income tax (RCIT) at 30%	<b>P 131,042,629</b>	P 31,564,478
Final tax at 20% and 7.50%	<u>67,004,186</u>	<u>59,433,913</u>
	<b>198,046,815</b>	90,998,391
Deferred tax expense		
relating to origination and reversal of		
temporary differences	<u>5,232,238</u>	<u>1,947,430</u>
	<b><u>P 203,279,053</u></b>	<b><u>P 92,945,821</u></b>
<i>Reported in other comprehensive income</i>		
Deferred tax expense (income) on:		
Remeasurement of net		
pension liability	<b>P 1,708,372</b>	(P 35,877,088 )
Reserve for fluctuation on		
AFS financial assets	<u>-</u>	<u>( 569,040,696)</u>
	<b><u>P 1,708,372</u></b>	<b><u>(P 604,917,784)</u></b>

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

	<u>2020</u>	<u>2019</u>
Tax on pretax profit at 30%	P 297,178,876	P 244,128,375
Adjustment for income subject to lower tax rate	( 33,625,430)	( 30,012,825)
Tax effects of:		
Non-taxable income	( 74,138,607)	( 121,169,729)
Reversal of previously recognized DTA	<u>13,864,214</u>	<u>-</u>
	<u>P 203,279,053</u>	<u>P 92,945,821</u>

The net deferred tax liabilities relate to the following as of December 31:

	<u>Statements of Comprehensive Income</u>					
	<u>Statements of Financial Position</u>		<u>Profit or Loss</u>		<u>Other Comprehensive Income</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<i>Deferred tax assets</i>						
Unamortized past service cost	P 80,910,421	P 81,555,960	(P 645,537)	P 17,092,175	P -	P -
Allowance for impairment losses	86,208,000	69,443,387	16,764,612	4,327,071	-	-
Net pension liability	26,989,683	39,019,263	( 10,321,207)	( 26,657,317)	1,708,372	( 35,877,088)
Right-of-use asset	21,518,305	11,223,231	10,295,075	11,223,231	-	-
Others	-	13,864,214	( 13,864,214)	-	-	-
	<u>215,626,409</u>	<u>215,106,055</u>	<u>2,228,726</u>	<u>5,985,160</u>	<u>1,708,372</u>	<u>( 35,877,088)</u>
<i>Deferred tax liabilities</i>						
Lease liability	18,523,854	10,608,409	7,915,445	10,608,409	-	-
Unrealized foreign exchange gains	( 2,071,503)	( 1,617,022)	( 454,481)	( 2,675,819)	-	-
Reserve for fluctuation of AFS financial assets	-	-	-	-	-	( 569,040,696)
	<u>16,452,351</u>	<u>8,991,387</u>	<u>7,460,964</u>	<u>7,932,590</u>	<u>-</u>	<u>( 569,040,696)</u>
Net deferred tax assets - net	<u>P 199,174,059</u>	<u>P 206,114,668</u>	<u>P 5,232,238</u>	<u>P 1,947,430</u>	<u>P 1,708,372</u>	<u>( P 604,917,784)</u>
Deferred tax expense (income) - net			<u>P 5,232,238</u>	<u>P 1,947,430</u>	<u>P 1,708,372</u>	<u>( P 604,917,784)</u>

The Company is subject to minimum corporate income tax (MCIT), which is computed at 2% of gross income, as defined under the tax regulations, or RCIT 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 opted to claim itemized deductions in computing for its income tax due.

### 34. RELATED PARTY TRANSACTIONS

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel (KMP) of the Company are also considered to be related parties.

The Company's transactions with related parties are as follows:

	<u>Year</u>	<u>Note</u>	<u>Amount of Transaction</u>	<u>Due from Related Parties</u>	<u>Due to Related Parties</u>	<u>Terms and Conditions</u>
<b>United Fund, Inc. (UFI) – Under Common Control</b>						
Investments collected in behalf of UFI	2019	34a	P -	P -	P 3,000	Due and demandable; non-interest bearing; unsecured
<b>Cocolife Fixed Income Fund, Inc. (CFIFI) – Under Common Control</b>						
Investment collected on behalf of CFIFI	2020	34c	-	-	33,000	Due and demandable; non-interest bearing; unsecured
	2019	34c	-	-	18,500	Due and demandable; non-interest bearing; unsecured
<b>CAMCI – Subsidiary</b>						
Allocation of expenses for centralized personnel and technical services	2020	34b	-	2,395,383	5,739	Due and demandable; non-interest bearing; unsecured
	2019	34b	2,929,063	2,725,263	-	Due and demandable; non-interest bearing; unsecured
<b>Cocoplans – Subsidiary</b>						
Advances	2020	34d	-	5,066,156	1,447,699	Due and demandable; non-interest bearing; unsecured
	2019	34d	-	4,142,769	-	Due and demandable; non-interest bearing; unsecured
<b>Cocogen – Subsidiary</b>						
Advances	2020	34d	-	18,555,758	-	Due and demandable; unsecured
<b>Key Management Personnel</b>						
Advances	2020	34d	-	97,183,390	-	Due and demandable; non-interest bearing; unsecured
	2019		-	-	-	Due and demandable; non-interest bearing; unsecured
<b>TOTAL</b>	2020		<u>P -</u>	<u>(P 123,200,687)</u>	<u>(P 1,486,438)</u>	
	2019		<u>P 2,929,063</u>	<u>(P 6,868,032)</u>	<u>(P 21,500)</u>	

Notes:

34a. These amounts pertain to the investments that were received by the Company that will be remitted to UFI.

34b. These pertain to common expenses initially paid by CAMCI and then subsequently reimbursed by the Company.

34c. These pertain to the amount to be remitted by CFIFI to the Company arising from the interest income on loans.

34d. These are cash advances provided or received by the Company from related parties.

The items discussed above are presented in the statements of financial position as:

- a. 34a and 34c - Investments accounts payable under Accounts Payable and Accrued Expenses account (see Note 25);
- b. 34b and 34e - Investments accounts receivable under Loans and Other Receivables account (see Note 10);
- c. 34d - Other advances under Loans and Other Receivables account (see Note 10).

Compensation of KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director, whether executive or otherwise, of that entity.

The KMP compensation is as follows:

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	<b>P 105,976,445</b>	P 91,417,991
Post-employment benefits	<b><u>13,001,338</u></b>	<u>11,227,459</u>
	<b><u>P 118,977,783</u></b>	<b><u>P 102,645,450</u></b>

The retirement fund neither provides any guarantee or surety for any obligation of the Company nor its investments covered by any restrictions or liens.

### 35. EVENTS AFTER THE REPORTING PERIOD

On March 26, 2021, RA No. 11534, *Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Act)*, 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 Act that are relevant to the Company:

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

Given that the CREATE Act 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 lower RCIT rate of 25% starting July 1, 2020, the current income tax expense as presented in the 2020 annual income tax return of the Company would be lower than the amount presented in the 2020 financial statements, while tax credit would be higher.

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 P33.10 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.

## 36. COMMITMENTS AND CONTINGENCIES

### *36.1 Operating Leases – Company as Lessor*

The Company, as a lessor, has entered into non-cancellable and renewable leases with terms between one to ten years and payment on a monthly basis from the date of the contracts. Some of these lease agreements provide for an escalation in the rental rates ranging from 2.00% to 10.00%. None of the leases includes contingent rentals and restrictions.

Future minimum rentals receivable under non-cancellable operating leases as at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Within one year	P 14,319,449	P 17,538,812
After one year but not more than five years	<u>17,886,383</u>	<u>29,981,552</u>
	<u>P 32,205,832</u>	<u>P 47,520,364</u>

The Company's rent income is presented under Investment income (see Note 28).

### *36.2 Others*

There are contingent liabilities that may 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 those items will not have a material effect on the Company's financial statements.

## 37. UNIT-LINKED FUNDS

The Company issues unit-linked insurance contracts where payments to policyholders are linked to internal investment funds set up. The details of these internal investments funds, which comprise the assets backing the unit-linked liabilities, are presented in the tables in the succeeding pages. The assets, liabilities, income and expenses of these internal investment funds have been reflected in the appropriate accounts in the financial statements.

### *Guaranteed Funds*

Guaranteed funds offered to unit-linked policyholders are available in one year and 3-year maturity periods. Unit-linked policyholders are allowed to allocate up to maximum of ninety percent (90%) of the policy's investible funds to any one of these funds and the remaining portion to any of the unitized funds. The income earned by the funds is based on fixed interest rates that the Company has declared at the time of investment. The interest declared by the Company is net of any fees necessary to manage the funds. In the case of fund withdrawal before the chosen maturity date, corresponding penalties are charged on the interest earned. Presented are the details of the assets and liabilities of the peso guaranteed funds.



	<u>Dollar Guaranteed Fund</u>	<u>Peso Guaranteed Fund</u>	<u>Peso Medium Term Guaranteed Fund</u>	<u>Peso Long Term Guaranteed Fund</u>	<u>Total</u>
<b>2020</b>					
<b>Assets</b>					
Cash and cash equivalents	P 37,297,104	P 153,962,658	P 197,832	P 88,544	P 191,546,138
Financial assets at FVPL	258,966,669	2,171,951,420	463,111,735	2,988,839	2,897,018,663
Loans and other receivables	-	671,661,836	944,451,972	-	1,616,113,808
Accrued income	<u>2,365,962</u>	<u>7,355,996</u>	<u>4,320,234</u>	<u>-</u>	<u>14,042,192</u>
<b>Total</b>	<b><u>P 298,629,735</u></b>	<b><u>P 3,004,931,910</u></b>	<b><u>P 1,412,081,773</u></b>	<b><u>P 3,077,383</u></b>	<b><u>P 4,718,720,801</u></b>
<b>Liabilities</b>					
Insurance contract liabilities	P 205,935,045	P 2,861,657,948	P 1,250,724,688	P -	P 4,318,317,681
Accounts payable and accrued expenses	<u>6,238</u>	<u>7,752,564</u>	<u>20,553,172</u>	<u>-</u>	<u>28,311,974</u>
<b>Total</b>	<b><u>P 205,941,283</u></b>	<b><u>P 2,869,410,512</u></b>	<b><u>P 1,271,277,860</u></b>	<b><u>P -</u></b>	<b><u>P 4,346,629,655</u></b>
<b>Guaranteed interest rates</b>	<b>2.00%</b>	<b>2.00%</b>	<b>4.50%</b>	<b>-</b>	<b>-</b>
<b>2019</b>					
<b>Assets</b>					
Cash and cash equivalents	P 54,665,504	P 648,303,296	P 450,038,221	P 3,022,050	P 1,156,029,071
Financial assets at FVPL	279,474,616	884,150,967	561,359,161	-	1,724,984,744
Loans and other receivables	456	1,015,019,230	1,024,110,509	-	2,039,130,195
Accrued income	<u>2,693,917</u>	<u>5,912,800</u>	<u>4,051,522</u>	<u>6,372</u>	<u>12,664,611</u>
<b>Total</b>	<b><u>P 336,834,493</u></b>	<b><u>P 2,553,386,293</u></b>	<b><u>P 2,039,559,413</u></b>	<b><u>P 3,028,422</u></b>	<b><u>P 4,932,808,621</u></b>
<b>Liabilities</b>					
Insurance contract liabilities	P 250,618,970	P 2,449,170,106	P 1,942,348,355	P -	P 4,642,137,431
Accounts payable and accrued expenses	<u>165,742</u>	<u>227,021</u>	<u>-</u>	<u>-</u>	<u>392,770</u>
<b>Total</b>	<b><u>P 250,784,712</u></b>	<b><u>P 2,449,397,127</u></b>	<b><u>P 1,942,348,355</u></b>	<b><u>P -</u></b>	<b><u>P 4,642,530,201</u></b>
<b>Guaranteed interest rates</b>	<b>2.00%</b>	<b>4.50%</b>	<b>5.00%</b>	<b>-</b>	<b>-</b>

### *Growth Funds*

This is a unitized variable fund available only in conjunction with the 3-year Peso Medium Term Fund. The performance of the fund is reflected by the Net Asset Value computed at the end of each trading day. The Peso Income and Growth Fund seeks to maximize interest income, consistent with its policy to preserve capital, through a diversified portfolio of high-grade bonds and/or evidences of debt of the Philippine government-owned or controlled corporations, solvent corporations and institutions.

### *Dollar Bond Fund*

This is a unitized variable fund available for dollar investments together with the Dollar Guaranteed Fund. The fund seeks to generate regular interest income, consistent with its policy to preserve capital and to maintain liquidity of its investments. The fund is invested primary in dollar-denominated fixed-income instruments ranging from debentures, money market instruments and government securities.

### *Peso Equity Fund*

This is unitized variable fund available for peso investments and may be chosen together with the Peso Guaranteed Fund and Peso Bond Fund. The fund seeks to maximize income consistent with its policy to preserve capital and to maintain liquidity of investments through a diversified portfolio of high-quality listed equity issues-blue chips and growth stocks listed in the Philippine Stocks Exchange.

### *Peso Fixed Income Fund*

This is a unitized variable fund available for peso investments and may be chosen together with the Peso Guaranteed Fund and Peso Equity Fund. The fund seeks to generate regular interest income, consistent with its policy to preserve capital and maintain liquidity of investment through a diversified portfolio of high grade bonds and evidence of debt of solvent corporations and institutions.

*Peso Bond Fund*

This is a unitized variable fund which aims to provide regular interest income, consistent with its policy to preserve capital and to maintain liquidity of its investments, through a diversified portfolio such as Treasury Notes/Bills, Certificates of Indebtedness issued by the Bangko Sentral ng Pilipinas and other government securities or bonds and other evidences of indebtedness or obligations, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or any of its instrumentalities. Duration of Peso Bond Fund's investment will be mostly between medium and long-term.

Presented below are the details of the Company's unitized variable funds.

	Peso Income and Growth Fund	Dollar Bond Fund	Peso Equity Fund	Peso Fixed Income Fund	Peso Bond Fund	Total
<b>2020</b>						
<b>Assets</b>						
Cash and cash equivalents	P 241,508	P 82,336,046	P 11,379,508	P 91,069,032	P 3,891,268	P 188,917,362
Financial assets at FVPL	135,145,021	59,214,448	312,468,806	867,770,604	147,377,034	1,521,975,913
Loans and other receivables	-	1,437,177	4,983,119	87,262,712	53,904	93,736,912
Accrued income	328,783	490,396	111,572	2,735,327	1,838,949	5,505,027
	<b>P 135,715,312</b>	<b>P 143,478,067</b>	<b>P 328,943,005</b>	<b>P 1,048,837,675</b>	<b>P 153,161,155</b>	<b>P 1,810,135,214</b>
<b>Liabilities</b>						
Insurance contract liabilities	P 132,082,452	P 128,620,719	P 314,413,074	P 1,039,995,802	P 146,833,323	P 1,761,945,370
Accounts payable and accrued expenses	2,342,337	236,188	6,087,289	1,747,523	73,209	10,486,546
	<b>P 134,424,789</b>	<b>P 128,856,907</b>	<b>P 320,500,363</b>	<b>P 1,041,743,325</b>	<b>P 146,906,532</b>	<b>P 1,772,431,916</b>
<b>NAV</b>	<b>1.2927</b>	<b>1.5027</b>	<b>1.6981</b>	<b>1.8040</b>	<b>1.2409</b>	<b>-</b>
<b>2019</b>						
<b>Assets</b>						
Cash and cash equivalents	P 136,094,271	P 61,828,167	P 94,229,925	P 346,547,551	P 2,150,616	P 640,850,530
Financial assets at FVPL	72,152,859	40,802,189	174,115,023	261,633,177	138,106,681	686,809,929
Loans and other receivables	833,476	5,470,053	1,559,037	140,627,330	9,114	148,499,010
Accrued income	605,747	414,052	253,303	1,852,270	1,877,756	5,003,128
	<b>P 209,686,353</b>	<b>P 108,514,461</b>	<b>P 270,157,288</b>	<b>P 750,660,328</b>	<b>P 142,144,167</b>	<b>P 1,481,162,597</b>
<b>Liabilities</b>						
Insurance contract liabilities	P 208,062,068	P 100,383,919	P 259,765,599	P 742,406,550	P 136,309,579	P 1,446,926,715
Accounts payable and accrued expenses	351,881	-	1,291,174	1,263,938	68,167	2,975,160
	<b>P 208,413,949</b>	<b>P 100,382,919</b>	<b>P 261,056,773</b>	<b>P 743,670,488</b>	<b>P 136,377,746</b>	<b>P 1,449,901,875</b>
<b>NAV</b>	<b>1.2701</b>	<b>1.5582</b>	<b>1.8278</b>	<b>1.7662</b>	<b>1.1441</b>	<b>-</b>

**38. LIFE INSURANCE COVERAGE OF COCONUT FARMERS**

Under the amended group master policy contract dated March 27, 1978, the Company agreed to provide group whole-life insurance coverage to certain coconut farmer members of the Philippine Coconut Producers Federation (Program I). This Group insurance plan shares in the Group's savings in mortality expenses and extra earnings in investments through policyholders' dividends and policy benefits.

This Group insurance plan shares in the Group's savings in mortality expenses and extra earnings in investments through policyholders' dividends and policy benefits.

Effective April 1, 1985, the insurance coverage of the coconut farmers was converted from a whole-life insurance plan to a modified extended term insurance. The amount of insurance and other benefits remained substantially the same, except for cash surrender and policy loan privileges. Policyholders' dividends, policy benefits and the legal policy reserves maintained under the farmers' insurance program are used to sustain, until these can, the modified extended term insurance coverage of the insured coconut farmers.

On November 5, 1996, the Philippine Coconut Authority (PCA) and the CIIF-OMG signed a MOA which will expand the number of farmers covered under the Insurance Program from existing 0.60 million to 1.50 million farmers (Program II). The premium payments for the additional farmers will be taken from an insurance fund to be set up by the CIIF-OMG in keeping with their social responsibility to the coconut industry.

On August 28, 2002, the PCA and CIIF-OMG signed a MOA which proposed a further expansion of the insurance program in order to restore the insurance benefit of the remaining insured coconut farmers under Program I and II from P5,000 to P10,000 (Program III). Further, under the same program, the PCA also proposed to extend the same benefit to an additional 2.48 million coconut farmers and coconut farm workers that were not included under Programs I and II. Accordingly, the PCA and CIIF-OMG have agreed in principle to implement Program III as follows:

*Phase I*

Upgrade the insurance coverage of the existing 1.02 million insured farmers from P5,000 to P10,000 per farmer effective June 12, 2002.

*Phase II*

Provide an additional 0.85 million coconut farmers and workers with a P10,000 Group Yearly Renewable Term Coverage.

*Phase III*

Provide an additional 0.90 million coconut farmers and workers with a P10,000 Group Yearly Renewable Term Coverage.

*Phase IV*

Provide an additional 0.78 million coconut farmers and workers with a P10,000 Group Yearly Renewable Term Coverage.

**39. OTHER REQUIRED DISCLOSURES**

RA No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code) took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no significant impact to the Company's financial statements.

**40. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS NO. 15-2010 OF BUREAU OF INTERNAL REVENUE**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The tax information/disclosures required for the taxable year ended December 31, 2020 is presented in the succeeding pages.

**A. VAT**

*Output VAT*

In 2020, the Company declared output VAT amounting to P38,391,536 which relates to its taxable sales amounting to P319,929,468. The Company has no exempt or zero-rated sales during the year.

*Input VAT*

The Company's input VAT during the year amounting to P151,410 solely relates to services lodged to other accounts. The total input VAT was applied against the output VAT declared during the year.

**B. Documentary Stamp Tax**

Documentary stamp taxes (DST) paid and accrued in 2020 are presented below.

On loan instruments	P 3,464,256
On policies issued	328,370
On others	<u>1,057,140</u>
	<b><u>P 4,849,766</u></b>

DST on loan instruments and on shares of stock in 2020 were recorded as part of Others under Investment Expenses account in the 2020 statement of comprehensive income.

**C. Withholding Taxes**

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

Expanded	P 175,846,100
Compensation and benefits	<u>33,039,087</u>
	<b><u>P 208,885,187</u></b>

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

**D. All Other Taxes (Local and National)**

Other taxes paid in 2020 recognized under Taxes and licenses account under General and Administrative Expenses are as follows:

License and permit fees	P 15,595,248
Real estate taxes	2,999,298
DST	64,607
Others	<u>18,816,609</u>
	<b><u>P 37,475,762</u></b>

*E. Tax Contingencies*

On November 16, 2020, Cocolife received a Letter of Authority (LOA) for the year 2018. Accordingly, management submitted all requirements to the BIR, as set forth in the LOA, on December 22, 2020.

As of December 31, 2020, the Company does not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

