

Report of Independent Certified Public Accountants to Accompany Income Tax Return

Punongbayan & Araullo
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The Board of Directors
United Coconut Planters Life Assurance Corporation
Cocolife Building, 6807 Ayala Avenue
Makati City

We have audited the financial statements of United Coconut Planters Life Assurance Corporation (the Company) for the year ended December 31, 2022, on which we have rendered the attached report dated March 31, 2023.

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

PUNONGBAYAN & ARAULLO



By: Jerald M. Sanchez
Partner

CPA Reg. No. 0121830
TIN 307-367-174
PTR No. 9566645, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 121830-SEC (until financial period 2023)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002551-041-2023 (until Jan. 24, 2026)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

March 31, 2023

Report of Independent Auditors

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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, 2022 and 2021, 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, 2022 and 2021, 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 2022 and 2021 Financial Statements

(a) Recoverability of 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 2022 and 2021. 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, 2022 and 2021, the outstanding balance of claims receivables, net of allowance for impairment of P54.5 million and P44.5 million, respectively, amounted to P481.8 million and P461.8 million, respectively (see Note 11 to the financial statements). In both 2022 and 2021, additional P10.0 million allowance for impairment were recognized by the Company.

Given that the corresponding investment of the Company in CIIF Oil Mills had 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, 2022, and 2021, claims receivables (gross of allowance for impairment) that has been outstanding amounted to P536.3 million and P506.3 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.

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 as of December 31, 2022 and 2021 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 P569.7 million and P459.7 million (net of allowance for impairment) as of December 31, 2022 and 2021, respectively, classified as part of the Investments in Subsidiaries account with carrying amount of P1.7 billion and P1.3 billion, respectively, as of those dates.

Considering the net asset and net liability position of Cocoplans amounting to P77.5 million and P62.7 million as of December 31, 2022 and 2021, respectively, the carrying amount of the investment in Cocoplans is deemed to be impaired as of December 31, 2022 and 2021. Consequently, an impairment loss should have been recognized in the Company's profit or loss for the years ended December 31, 2022 and 2021. 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.

Applicable to 2022 Financial Statements

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

As of December 31, 2022, the Company's investment securities classified as AFS financial assets amounted to P9.1 billion, as disclosed in Note 10 to the financial statements. Included in this account are equity investments with carrying amounts of P437.3 million as of December 31, 2022, which are deemed 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 in 2022 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.

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 Insurance Commission (IC), is required to comply with the minimum risk-based capital (RBC2) 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.

As disclosed in Notes 3 and 5 to the financial statements, the Company was not able to comply with the minimum RBC2 requirement of 100% in 2018 and 2017. To address such noncompliance, in 2019, the Company submitted its Revised Management Plan (the Plan), setting forth its program of actions to build up its RBC2 ratio, which was approved by the IC. With the intensified actions employed by the Company to address the RBC2 ratio deficiency, and with its financial performance during 2019, the resulting RBC2 ratio for 2019, as audited and approved by the IC, is 137%, which is already compliant with the minimum RBC requirements of 100% and above the Company's commitment of 65% for the year 2019 as stipulated in the Plan.

In 2021, its final RBC2 ratio, as confirmed by the IC, is at 104%. In 2022, the Company's RBC2 ratio is at 134%, which is still subject to confirmation of the IC. In addition to the final determination by the IC, the possible effects of the matters described in the *Bases for Qualified Opinion* section of our report might affect such 2022 RBC2 ratio, which may result to possible noncompliance. While such possible noncompliance indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern entity, the Company's management is confident that it will be able to comply with the IC requirement before the end of its five-year recovery program given that it was able to meet its committed RBC2 ratio of 110% and 95% in 2022 and 2021, respectively, as indicated in the Plan. Management's assessment of the Company's ability to continue as a going concern is disclosed in Note 3 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.

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:

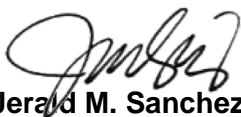
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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, 2022 required by the Bureau of Internal Revenue as disclosed in Note 39 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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March 31, 2023

UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
<u>ASSETS</u>			
CASH AND CASH EQUIVALENTS	7	P 1,398,598,742	P 2,566,395,355
INSURANCE RECEIVABLES - Net	8	701,939,546	762,149,417
TRADING AND INVESTMENT SECURITIES			
Financial assets at fair value through profit or loss	9	4,194,907,415	5,139,567,919
Available-for-sale financial assets	10	9,126,249,909	8,577,971,851
LOANS AND OTHER RECEIVABLES - Net	11	3,854,757,771	4,738,122,860
ACCRUED INCOME - Net	12	135,074,729	101,235,541
REINSURANCE ASSETS	13	103,033,674	45,149,853
INVESTMENTS IN SUBSIDIARIES - Net	14	1,739,480,791	1,335,460,614
REAL ESTATE INVENTORIES	15	5,726,136	11,248,136
INVESTMENT PROPERTIES - Net	16	983,401,160	888,429,238
PROPERTY AND EQUIPMENT - Net	17	248,507,330	214,447,698
RIGHT-OF-USE ASSETS - Net	18	80,982,507	25,797,923
INTANGIBLE ASSETS - Net	19	122,994,471	100,243,119
DEFERRED TAX ASSETS - Net	33	179,533,150	188,290,251
OTHER ASSETS - Net	20	<u>578,944,916</u>	<u>528,598,252</u>
TOTAL ASSETS		<u>P 23,454,132,247</u>	<u>P 25,223,108,027</u>
<u>LIABILITIES AND EQUITY</u>			
INSURANCE CONTRACT LIABILITIES	21	P 15,517,055,334	P 17,790,134,168
RESERVE FOR POLICYHOLDERS' DIVIDENDS	22	236,815,967	225,878,023
PREMIUM DEPOSIT FUNDS	23	578,431,573	862,209,504
INSURANCE PAYABLES	24	86,986,719	57,384,124
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	25	1,207,872,321	1,538,271,027
LEASE LIABILITIES	18	86,863,678	31,543,192
NET PENSION LIABILITY	32	6,272,545	98,500,408
OTHER LIABILITIES	25	<u>47,523,167</u>	<u>152,125,003</u>
Total Liabilities		17,767,821,304	20,756,045,449
EQUITY	2, 26	<u>5,686,310,943</u>	<u>4,467,062,578</u>
TOTAL LIABILITIES AND EQUITY		<u>P 23,454,132,247</u>	<u>P 25,223,108,027</u>

See Notes to Financial Statements.

UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
NET INSURANCE PREMIUMS	27		
Gross premiums on insurance contracts		P 7,294,473,416	P 6,506,722,618
Reinsurance premiums ceded		(58,861,944)	(49,717,964)
		7,235,611,472	6,457,004,654
OTHER REVENUES			
Income from variable life funds	2	1,452,380,586	1,778,020,392
Investment income - net	28	786,789,279	913,142,605
Service fees	29	651,069,121	551,699,540
Other income	28	18,324,627	9,100,106
		2,908,563,613	3,251,962,643
NET INSURANCE BENEFITS AND CLAIMS	30		
Gross benefits and claims		5,015,842,680	4,237,749,215
Gross change in insurance contract liabilities		(369,805,772)	151,268,488
Reinsurers' share on benefits and claims		(64,371,724)	(53,577,333)
Reinsurers' share of gross change in insurance contract liabilities		865,710	239,810
		4,582,530,894	4,335,680,180
OPERATING AND ADMINISTRATIVE EXPENSES			
Expenses from variable life funds	2	2,046,558,778	1,535,108,367
General and administrative expenses	31	1,846,877,921	1,994,273,093
Commissions		800,987,898	753,154,420
Insurance taxes		145,804,339	134,570,120
Investment expenses	28	132,221,703	240,908,899
Impairment losses on financial assets - net	8, 11	77,246,883	86,168,703
Policyholders' dividends	22	36,264,436	40,599,087
Decrease in loading and cost of collection		(20,116,321)	(27,631,588)
Premium refund		645,478	5,684,181
		5,066,491,115	4,762,835,282
PROFIT BEFORE TAX		495,153,076	610,451,835
TAX EXPENSE	33	117,773,383	111,542,109
NET PROFIT		377,379,693	498,909,726
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of life insurance policy reserves	2	1,631,434,216	1,118,733,268
Remeasurement of net pension liability	32	58,800,210	(68,393,051)
Income tax effect	33	(14,700,053)	(2,997,134)
		1,675,534,373	1,047,343,083
Item that will be reclassified subsequently to profit or loss			
Fair value losses on available-for-sale financial assets	10	(833,665,701)	(225,454,854)
Other Comprehensive Income - Net of Tax		841,868,672	821,888,229
TOTAL COMPREHENSIVE INCOME		P 1,219,248,365	P 1,320,797,955

See Notes to Financial Statements.

UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Note	Capital Stock	Contributed Surplus	Reserve for Fluctuation on AFS Financial Assets	Reserve for Net Pension Liability	Reserve for Life Insurance Policy	Retained Earnings		Total	Total
							Appropriated	Unappropriated		
Balance at January 1, 2022		P 550,000,000	P 10,000,000	(P 247,906,208)	(P 352,725,720)	(P 212,462,296)	P 62,785,726	P 4,657,371,076	P 4,720,156,802	P 4,467,062,578
Appropriation for policy reserves	26	-	-	-	-	-	24,703,194	(24,703,194)	-	-
Total comprehensive income (loss) for the year		-	-	(833,665,701)	44,100,157	1,631,434,216	-	377,379,693	377,379,693	1,219,248,365
Balance at December 31, 2022	26	<u>P 550,000,000</u>	<u>P 10,000,000</u>	<u>(P 1,081,571,909)</u>	<u>(P 308,625,563)</u>	<u>P 1,418,971,920</u>	<u>P 87,488,920</u>	<u>P 5,010,047,575</u>	<u>P 5,097,536,495</u>	<u>P 5,686,310,943</u>
Balance at January 1, 2021		P 550,000,000	P 10,000,000	(P 22,451,354)	(P 281,335,535)	(P 1,331,195,564)	P 42,602,919	P 4,178,644,157	P 4,221,247,076	P 3,146,264,623
Appropriation for policy reserves	26	-	-	-	-	-	20,182,807	(20,182,807)	-	-
Total comprehensive income (loss) for the year		-	-	(225,454,854)	(71,390,185)	1,118,733,268	-	498,909,726	498,909,726	1,320,797,955
Balance at December 31, 2021	26	<u>P 550,000,000</u>	<u>P 10,000,000</u>	<u>(P 247,906,208)</u>	<u>(P 352,725,720)</u>	<u>(P 212,462,296)</u>	<u>P 62,785,726</u>	<u>P 4,657,371,076</u>	<u>P 4,720,156,802</u>	<u>P 4,467,062,578</u>

See Notes to Financial Statements.

UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 495,153,076	P 610,451,835
Adjustments for:			
Interest income	28	(803,589,067)	(763,590,035)
Unrealized fair value losses on financial assets at fair value through profit or loss (FVPL)	28	284,344,699	3,176,870
Gain on sale of available-for-sale (AFS) financial assets	28	(119,499,990)	(35,118,663)
Depreciation and amortization	31	118,988,953	95,540,991
Dividend income	28	(96,403,711)	(87,873,767)
Impairment losses on financial assets - net	8, 11	77,246,883	86,168,703
Interest expense	18, 28	61,427,618	183,933,889
Unrealized foreign exchange gains - net	9, 10, 24	(51,611,009)	(2,359,010)
Gain on sale of investment properties	16, 28	(6,865,361)	(8,092,161)
Gain on sale of real estate inventories	15, 28	(6,638,326)	(4,070,226)
Loss on sale of financial assets at FVPL	28	2,113,682	10,420,900
Gain on sale of property and equipment	17, 28	(162,500)	(299,093)
Operating income (loss) before changes in assets and liabilities		(45,495,053)	88,290,233
Decrease in insurance receivables		5,708,979	290,919,054
Decrease in loans and other receivables		860,619,098	1,265,340,666
Increase in reinsurance assets		(57,883,821)	(35,261,154)
Increase in other assets		(84,990,017)	(63,240,222)
Decrease in insurance contract liabilities		(641,644,618)	(733,879)
Increase in reserve for policyholders' dividends		10,937,944	17,984,458
Decrease in premium deposit funds		(283,777,931)	(82,424,558)
Increase in insurance payables		29,571,250	18,619,128
Decrease in accounts payable and accrued expenses		(330,398,706)	(298,809,926)
Decrease in net pension liability		(33,427,653)	(59,858,256)
Increase (decrease) in other liabilities		(104,601,836)	52,664,774
Cash generated from (used in) operations		(675,382,364)	1,193,490,318
Interest paid	28	(59,746,511)	(181,024,325)
Cash paid for income taxes		(123,716,335)	(111,703,020)
Net Cash From (Used in) Operating Activities		(858,845,210)	900,762,973
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
AFS financial assets	10	(4,485,494,296)	(2,886,377,569)
Financial assets at FVPL	9	(1,498,772,303)	(2,922,833,743)
Investment in subsidiaries	14	(404,020,177)	(175,811,882)
Investment properties	16	(155,625,585)	(102,695,277)
Property and equipment	17	(92,794,425)	(137,852,890)
Intangible assets	19	(42,633,076)	(67,247,400)
Proceeds from sale/maturities of:			
AFS financial assets	10	3,242,985,162	2,325,930,918
Financial assets at FVPL	9	2,188,682,145	2,998,116,823
Investment properties	16	54,781,060	47,322,222
Property and equipment	17	15,912,551	23,838,552
Real estate inventories	15	12,160,326	8,486,726
Investment in associate	14	-	4,000,000
Interest received		803,589,067	763,590,035
Dividends received		97,207,876	87,573,446
Net Cash Used in Investing Activities		(264,021,675)	(33,960,039)
CASH USED IN A FINANCING ACTIVITY			
Repayment of lease liabilities	18	(44,929,728)	(26,983,158)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		(1,167,796,613)	839,819,776
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		2,566,395,355	1,726,575,579
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		P 1,398,598,742	P 2,566,395,355

Supplemental Information on Non-cash Investing and Financing Activities:

- 1) In 2022 and 2021, the Company reclassified certain land and building amounting to P1.56 million and P23.05 million, respectively, from Property and Equipment to Investment Properties (see Notes 16 and 17).
- 2) In 2022 and 2021, the Company recognized right-of-use assets amounting to P98.57 million and P11.67 million, respectively, with corresponding lease liabilities of the same amount each year in the statements of financial position (see Note 18).

See Notes to Financial Statements.

UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(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 owned by various Filipino individuals.

The Company has a Certificate of Authority No. 2022/44-R issued by the Insurance Commission (IC) to transact in life insurance business until December 31, 2024.

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, 2022 and 2021, the Company's subsidiaries (all incorporated in the Philippines), effective percentage of ownership and the nature of such components' businesses follow:

	Explanatory Notes	Percentage of Ownership	
		2022	2021
Subsidiaries:			
Cocogen Insurance, Inc. (Cocogen)	(a)	100%	100%
Cocoplans, Inc. (Cocoplans)	(b)	100%	100%
Cocolife Asset Management Company, Inc. (CAMCI)	(c)	100%	100%
Ultra Security Services, Inc. (Ultra)	(d)	100%	100%
Healthassist, Inc. (Healthassist)	(e)	100%	100%
First Metrowheels Service, Inc. (First Metrowheels)*	(f)	100%	-
CocoConnect, Inc. (Coconnect)**	(g)	100%	-

*100% owned by Ultra

**100% owned by Healthassist

Explanatory Notes:

- (a) Cocogen is engaged in the business of non-life insurance. The registered office address of Cocogen is located at 22nd Floor, One Corporate Center Condominium, Dona Julia Vargas Avenue, corner Meralco Avenue, Ortigas Center, San Antonio, Pasig City. In 2021, Cocogen changed its registered name from UCPB General Insurance Company, Inc. to Cocogen Insurance, Inc.
- (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) 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.
- (d) 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.
- (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 2nd Floor, Cocolife Building, 6807 Ayala Avenue, Makati City.
- (f) First Metrowheels is an armored vehicle services company which is 100% owned by Ultra. First Metrowheels' registered office address and principal place of business is located at 8003 KM 14 West Service Rd. Merville, Paranaque City.
- (g) Coconnect is the call center operations company of Cocolife and Cocogen which is 100% owned by Healthassist. Coconnect's registered office address and principal place of business is located at 7th Floor, Cocolife Building, 6807 Ayala Ave., Makati City.

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

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. In 2022, the country's economic status improved because of reopening of local and international travels and loosening of health and safety protocols and restrictions. Demand and supply of products are slowly returning to pre-pandemic levels. As a result, overall continuing impact of the COVID-19 pandemic to the Company is continuously improving and Company's operations is slowly going back to its pre-pandemic levels. The Company's net insurance premiums increased by 13.06% in 2022 as compared to that of 2021 and accordingly, insurance benefits and claims, and operating costs increased as well by 7.18% and 6.36%, respectively, as compared to that of 2021.

The management continues to take following actions to continually improve its operations:

- continued to maximize digitalization efforts to effectively market the Company's products and increase competitiveness in the industry;
- carried out branding and marketing efforts to continuously attract clients;
- implemented structural cost management with prioritized spending in compliance and growth markets;
- realigned processes for improved customer servicing and retention; and,
- enhanced investment strategies to ensure a stable inflow of investment income.

With the action steps being undertaken, the management projects that the Company will continue to report positive results of operations and will remain liquid to meet current obligations as they fall due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern due to the effects of the pandemic.

1.3 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2022 (including the comparative financial statements as of the and for the year ended December 31, 2021) were authorized for issue by the Company's Board of Directors (BOD) on March 31, 2023.

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 and Sustainability Reporting Standards Council (FSRSC) 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 Amended PFRS

(a) Effective in 2022 that are Relevant to the Company

The Company adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022:

PFRS 3 (Amendments)	:	Business Combinations – Reference to the Conceptual Framework
PAS 16 (Amendments)	:	Property, Plant and Equipment – Proceeds Before Intended Use
PAS 37 (Amendments)	:	Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to PFRS (2018-2020 Cycle)		
PFRS 16 (Amendments):	:	Leases – Lease Incentives

Discussed below and in the succeeding page are the relevant information about these pronouncements.

- (i) PFRS 3 (Amendments), *Business Combinations – Reference to the Conceptual Framework*. The amendments are responses to feedback received from the post-implementation review of IFRS 3. The amendments clarify the minimum attributes that the acquired set of activities and assets must have to be considered a business. To meet the definition of a business, the acquired set of activities and assets must have inputs and substantive processes that can collectively significantly contribute to the creation of outputs. The amendments removed the assessment of whether market participants are able to replace missing inputs or processes and continue to produce outputs. The amendments introduced an optional test ('the concentration test') that allows the acquirer to carry out a simple assessment to determine whether the acquired set of activities and assets is not a business. The entity can choose whether to apply the concentration test for each transaction it makes. These amendments have no significant impact to the Company's financial statements.
- (ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use*. 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 had no significant impact on the Company's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.

- (iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the Company's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Company's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.
- (iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments which do not have significant impact and which are effective from January 1, 2022, are relevant to the Company's financial statements:
- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

(b) *Effective in 2022 that is not Relevant to the Company*

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following Annual Improvements to PFRS 2018-2020 Cycle are not relevant to the Company's financial statements:

- (i) PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*
- (ii) PAS 41, *Agriculture – Taxation in Fair Value Measurements*
- (iii) Annual Improvements to PFRS (2018-2020 Cycle) – PFRS 9 (Amendments) *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*

(c) *Effective Subsequent to 2022 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2022, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, none of these are expected to have significant impact on the Company's financial statements, unless otherwise stated.

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)

- (ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)
- (iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023).
- (iv) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)
- (v) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between and Investor and its Associates or Joint Venture* (effective date deferred indefinitely)
- (vi) 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 accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at FVOCI if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVPL.

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 opted to defer application of PFRS 9 (2014) to periods beyond January 1, 2018 [see Note 2.2(b)(ii)]. Consequently, the Company continued to apply the existing requirements of PAS 39 with respect to its financial instruments.

- (vii) PFRS 4 (Amendments), *Insurance Contracts – Applying PFRS 9 with PFRS 4*, provide two options for entities that issue insurance contracts within the scope of PFRS 4:
- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the “overlay approach”); and,
 - an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the “deferral approach”).

Management exercised the second option provided by PFRS 4, effectively deferring the application of PFRS 9 to periods beyond January 1, 2018 until PFRS 17 is adopted.

- (viii) PFRS 17, *Insurance Contracts – Insurance Contracts* (effective from January 1, 2025). This new standard will eventually replace PFRS 4. The IC, through its Circular Letter (CL) No. 2020-62, *Amendment of Sec 1 of CL No. 2018-69; Deferral of IFRS 17 Implementation*, 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;
- initial enhancement of assumption methodology to be more consistent with PFRS 17 requirements;
- engagement with external experts for the training of personnel for the adoption of PFRS 17;
- conducting analysis to identify gaps on operational and accounting policies; and,
- acquisition of a risk integrity software to assist in the accounting of contracts under PFRS 17.

- (ix) PFRS 17 (Amendments), *Insurance Contracts – Initial Application of PFRS 17 and PFRS 9 – Comparative Information* (effective from January 1, 2025). The amendments add a transition option for a classification overlay to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of PFRS 17. This amendment is applicable to the Company to annual reporting periods beginning on or after January 1, 2025 in accordance with the IC CL No. 2020-62.

2.3 Separate Financial Statements and Investments in Subsidiaries

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.

The Company's investments in subsidiaries are accounted for in these separate financial statements at cost, less any impairment loss (see Notes 2.16 and 2.23).

2.4 Current versus Non-current Classification

The Company presents assets and liabilities in the statement of financial position based on liquidity, while current or noncurrent classification is presented in Note 38. An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

All other liabilities are classified as noncurrent.

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

2.5 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 2.8).

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.

2.6 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.

2.7 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 2.19).
- (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 cash flows 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.

2.8 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.

2.9 Insurance Receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss. Insurance receivables are derecognized following the derecognition criteria of financial assets.

The Company's insurance receivables are composed of premiums due and uncollected, due from agents, and due from reinsurers and cedants (see Note 2.6).

Premiums due and uncollected represent the outstanding balance of premiums due from the policyholder. Recognition of premiums due and uncollected is made at each reporting date. These are usually premiums that fell due during the month of December and are therefore still within the grace period based on the Company's policy.

2.10 Premium Deposit Funds (PDF)

PDF represents advance payments from policyholders provided that the maximum amount that may be held at any time in the fund should not exceed the total future premiums due under the insurance policy. In the case of a renewable policy, the maximum amount that may be held in the fund should not exceed the total premiums payable until its last renewal date. In no case shall a policyholder make any additional deposit if the existing balance thereof is already equal or greater than the sum of all future premiums payable on his policy. Subject to the provisions of the contract, any excess premium shall be refunded to the policyholders only after their policies have been paid-up. These advance payments will be credited to premiums once due.

The fund earns interest ranging from 3.00% to 6.00% per annum which is credited to the fund.

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.

2.11 *Financial Instruments*

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

(a) *Financial Assets*

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.

(i) *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, 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 as follows:

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.

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, Contingency fund pool 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.

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.

(ii) *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.

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.

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.

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.

(iii) 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.

(iv) Derecognition of Financial Assets

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

(b) Financial Liabilities

Financial liabilities, which include 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.

(c) *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when 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.

2.12 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 2.23).

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.

2.13 Real Estate Inventories

Real estate inventories consist of columbary 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 columbary units and those costs incurred for the development and improvement of the properties.

2.14 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.

2.15 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. Costs 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.

2.16 Investments in Subsidiaries

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 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.

Cost of investments in subsidiaries 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 are derecognized upon sale or loss of control or influence over the subsidiaries. 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.

2.17 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.

2.18 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.

2.19 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 2.7(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*.

2.20 Revenue and Cost Recognition

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised services to the customer. Expenses and costs, if any, are recognized in the statement of comprehensive 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, *Insurance Contracts*, and PAS 39, *Financial Instruments Recognition and Measurement*, 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, 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) *Income/Expenses from Variable Life Funds* – This relates to unit-link fund movements such as deposits, withdrawals, switch-in and top-up charges and administrative expenses.
- (d) *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.
- (e) *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.

- (f) *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.

- (g) *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.

2.21 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 2.23).

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.

2.22 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.

2.23 Impairment of Non-financial Assets

The Company's investments in subsidiaries, 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.

2.24 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 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.

(d) *Short-term Employee Benefits*

Short-term employee benefits, including holiday entitlement, are current liabilities included in pension and other employee obligations, measured at the undiscounted amount the Group expects to pay as a result of the unused entitlement.

2.25 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.

2.26 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.

2.27 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) Determination of Significant Insurance Risk on Unit-linked Insurance Policies

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.

In 2022 and 2021, 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 2.18 and disclosures on relevant provisions and contingencies are presented in Note 35.

(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) Distinction Between Investment Properties and Owner-managed Properties

The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity.

Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

(h) 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.

In 2018 and 2017, the Company's risk-based capital (RBC2) ratio fell below the mandatory level of 100% as required per CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*. Such noncompliance indicates 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).

Below is the committed RBC2 ratios for the five-year recovery program approved by the IC, with corresponding actual ratios up to year 2022.

<u>Year</u>	<u>Committed RBC2 Ratio</u>	<u>Actual RBC 2 Ratio</u>
2020	80%	88%
2021	95%	104%
2022	110%	134%*
2023	125%	-

**for confirmation of the IC.*

For the years 2020 to 2022, the Company was able to comply with the committed RBC2 ratio as indicated on this five-year recovery program. With this, the management believes that the Company will continue as a going concern and will continue to improve its operations to meet its target RBC2 ratio until the end of the five-year recovery program.

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 P13.97 billion and P15.92 billion as of December 31, 2022 and 2021, 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 P0.88 billion and P1.20 billion as at December 31, 2022 and 2021, 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 factors that affect the collectability of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behaviour 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 insurance receivables and loans and other receivables amounted to P77.25 million and P86.17 million in 2022 and 2021, respectively, which are presented as Impairment Losses on Financial Assets – net in the statements of comprehensive income. 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, right-of-use assets 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, 2022 and 2021, 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*

The Company assesses impairment on its investments in subsidiaries 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 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 operates) with an adverse effect on the subsidiary 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.

The carrying values of the Company's investments in subsidiaries are disclosed in Note 14. In 2022 and 2021, the management assessed that no impairment loss was necessary to be recognized on its investment in subsidiaries.

(h) *Impairment of Non-financial Assets (Other than Investment in Subsidiaries)*

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 2022 and 2021, 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, 2022 and 2021 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:

	2022		2021	
	Number of Policies	Sum Assured	Number of Policies	Sum Assured
Endowment	38,213	P 9,440,923,937	38,766	P 9,643,798,579
Whole life	20,945	7,281,994,927	21,571	7,425,763,624
Accident and health	17,081	103,753,730,889	13,113	63,607,126,709
Variable/unit-linked	13,888	10,631,890,021	12,986	10,978,061,510
Term	11,521	2,816,575,373	11,937	2,861,356,384
Group	2,320	449,527,125,549	2,070	507,823,434,968
	103,968	P 583,452,240,696	100,443	P 602,339,541,774

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).

	2022			2021		
	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 5,630,787,305	P -	P 5,630,787,305	P 6,363,272,980	P -	P 6,363,272,980
Endowment	4,013,087,027	(775,143)	4,012,311,884	4,686,857,417	(712,932)	4,686,144,485
Whole life	2,383,714,166	(5,284,438)	2,378,429,729	3,024,653,522	(4,677,283)	3,019,976,239
Accident and health	1,232,294,662	-	1,232,294,662	1,057,020,984	(-)	1,057,020,984
Group life	367,780,364	-	367,780,364	419,721,007	-	419,721,007
Term	341,531,987	(1,294,848)	340,237,138	368,236,683	(1,098,504)	367,138,179
	P 13,969,195,511	(P 7,354,429)	P 13,961,841,082	P 15,919,762,593	(P 6,488,719)	P 15,913,273,874

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).

	<u>Gross Legal Policy Reserves</u>	<u>Reinsurers' Share on Liabilities</u>	<u>Net Policy Reserves</u>
2022			
With fixed and guaranteed terms			
Fixed and guaranteed – non-participating	P 6,258,888,160	(P 3,222,839)	P 6,255,665,321
Partially fixed and guaranteed – participating	2,079,520,045	(4,131,590)	2,075,388,455
Unit-linked	<u>5,630,787,306</u>	<u>-</u>	<u>5,630,787,305</u>
Total insurance liabilities	<u>P 13,969,195,511</u>	<u>(P 7,354,429)</u>	<u>P 13,961,841,082</u>
2021			
With fixed and guaranteed terms			
Fixed and guaranteed – non-participating	P 6,928,612,384	(P 2,847,909)	P 6,925,764,475
Partially fixed and guaranteed – participating	2,627,877,229	(3,640,810)	2,624,236,419
Unit-linked	<u>6,363,272,980</u>	<u>-</u>	<u>6,363,272,980</u>
Total insurance liabilities	<u>P 15,919,762,593</u>	<u>(P 6,488,719)</u>	<u>P 15,913,273,874</u>

Classification by Attained Age (Based on 2022 and 2021 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 30-34 to 40-44 and those below 20.

<u>Attained Age</u>	<u>Gross of Reinsurance</u>		<u>Net Reinsurance</u>	
	<u>Exposure</u>	<u>Concentration (%)</u>	<u>Exposure</u>	<u>Concentration (%)</u>
2022				
<20	P 3,213,721,307	10.65	P 3,100,186,949	11.08
20 - 24	1,794,199,112	5.95	1,721,383,845	6.15
25 - 29	2,815,202,338	9.33	2,679,569,610	9.57
30 - 34	3,407,812,851	11.29	3,261,624,136	11.65
35 - 39	4,083,484,020	13.53	3,807,382,954	13.60
40 - 44	3,833,011,586	12.70	3,414,211,641	12.20
45 - 49	3,257,508,766	10.80	2,882,229,244	10.30
50 - 54	2,541,139,579	8.42	2,379,930,068	8.50
55 - 59	2,196,142,753	7.28	1,969,448,237	7.04
60 - 64	1,581,719,859	5.24	1,423,686,569	5.09
65 - 69	776,148,468	2.57	725,076,692	2.59
70 - 74	484,419,469	1.62	452,781,482	1.62
75 - 79	128,791,626	0.43	114,887,735	0.41
80 +	<u>58,082,525</u>	<u>0.19</u>	<u>56,707,927</u>	<u>0.20</u>
	<u>P 30,171,384,259</u>	<u>100.00</u>	<u>P27,989,107,089</u>	<u>100.00</u>
2021				
<20	P 3,545,358,283	11.47	P 3,414,130,994	11.92
20 - 24	1,957,461,449	6.33	1,873,740,165	6.54
25 - 29	2,858,195,052	9.25	2,739,695,284	9.57
30 - 34	3,680,916,017	11.91	3,499,091,181	12.22
35 - 39	3,969,188,763	12.84	3,677,155,311	12.84
40 - 44	3,987,322,679	12.90	3,541,527,902	12.37
45 - 49	3,192,684,432	10.33	2,812,437,108	9.82
50 - 54	2,837,311,719	9.18	2,616,731,341	9.14
55 - 59	1,986,219,148	6.43	1,799,581,827	6.28
60 - 64	1,548,272,423	5.01	1,409,704,694	4.92
65 - 69	755,724,331	2.44	706,548,001	2.47
70 - 74	437,189,047	1.42	405,418,656	1.42
75 - 79	102,610,174	0.33	95,561,603	0.33
80+	<u>50,526,580</u>	<u>0.16</u>	<u>47,848,976</u>	<u>0.16</u>
	<u>P 30,908,980,097</u>	<u>100.00</u>	<u>P28,639,173,043</u>	<u>100.00</u>

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

Business Type	2022		2021	
	Net Reinsurance		Net Reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
Employer-employee association benefit	P 174,000,692	38.71	P 185,596,543	36.55
Compulsory migrant workers insurance	140,555,567	31.27	77,237,986	15.21
Credit life insurance	93,340,497	20.76	114,777,712	22.60
Microinsurance	35,321,404	7.86	123,556,873	24.33
Reinsurance assumed	5,812,994	1.29	5,843,609	1.15
Pre-need planholders	495,972	0.11	810,711	0.16
	P 449,527,126	100.00	P 507,823,434	100.00

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

Industry Type	2022		2021	
	Net Reinsurance		Net Reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
I. Accident	P 87,408,956	100.00	P 49,549,362	100.00
II. Health				
Business process				
outsourcing	7,106,825	43.48	5,627,085	40.04
Government agencies	3,403,440	20.82	4,079,270	29.02
Services/distribution	2,258,825	13.82	1,882,520	13.39
Manufacturing	1,207,205	7.39	576,080	4.10
Banking/ financials	950,760	5.82	907,335	6.45
Shipping	626,145	3.83	365,940	2.60
Real estate	392,900	2.40	387,230	2.75
Non-profit associations	281,575	1.72	125,720	0.89
Hotel	27,820	0.17	29,925	0.21
Learning institutions	89,280	0.55	76,660	0.55
	16,344,775	100.00	14,057,765	100.00
	P 103,753,731	100.00	P 63,607,127	100.00

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.

	Increase (Decrease)			
	Mortality/Morbidity		Discount Rate	
	110% of Original Mortality Table	90% of Original Mortality Table	Original Valuation Interest Rate +1%	Original Valuation Interest Rate -1%
2022				
Net liabilities	P 206,091,193	(P 208,439,306)	(P 681,872,386)	P 848,199,924
Income before tax	(206,091,193)	208,439,306	681,872,386	(848,199,924)
Equity	(154,568,394)	156,329,480	511,404,290	(636,149,943)
2021				
Net liabilities	P 195,964,595	(P 198,157,529)	(P 967,236,824)	P 1,236,492,683
Income before tax	(195,964,595)	198,157,529	967,236,824	(1,236,492,683)
Equity	(146,973,446)	148,618,147	725,427,618	(927,369,512)

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, 2022 and 2021.

	<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>
2022				
Mortgage loans	P 1,005,805,400	P 3,669,467,838	P -	P 3,669,467,838
Installment contract receivables	96,716,116	318,585,524	-	318,585,524
Collateral loans	<u>42,891,014</u>	<u>214,073,113</u>	<u>-</u>	<u>214,073,113</u>
	<u>P 1,145,412,530</u>	<u>P 4,202,126,475</u>	<u>P -</u>	<u>P 4,202,126,475</u>
2021				
Mortgage loans	P 1,651,590,227	P 8,155,227,952	P -	P 8,155,227,952
Installment contract receivables	189,016,289	233,713,157	-	233,713,157
Collateral loans	<u>98,255,931</u>	<u>272,812,333</u>	<u>-</u>	<u>272,812,333</u>
	<u>P 1,938,862,447</u>	<u>P 8,661,753,442</u>	<u>P -</u>	<u>P 8,661,753,442</u>

The Company's concentration of credit risk arises from loans and other receivables since the said financial instruments amounted to P3.85 billion and P4.74 billion as of December 31, 2022 and 2021, respectively, which is equivalent to 19.73% and 21.19% of its total financial assets as at December 31, 2022 and 2021, respectively.

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>	
2022						
Cash and cash equivalents*	P 1,393,206,928	P -	P -	P -	P -	P 1,393,206,928
Insurance receivables						
Premiums due and uncollected	-	621,869,305	-	-	181,225,091	803,094,396
Due from agents	-	80,070,241	-	-	17,272,234	97,342,475
Financial assets at FVPL						
Debt securities	3,062,922,597	-	-	-	-	3,062,922,597
AFS financial assets						
Debt securities	7,089,407,372	-	-	-	-	7,089,407,372
Loans and other receivables						
Mortgage loans	978,918,998	6,222,414	1,974,125	15,587,703	3,102,160	1,005,805,400
Notes receivable	8,145,819	953,333	-	1,211,479,764	175,171,984	1,395,750,900
Health management organization (HMO) billback	181,526,757	-	-	-	193,935,232	375,461,989
Policy loans	437,123,887	-	-	-	-	437,123,887
Investment accounts receivable	49,264,272	-	-	125,321,071	13,107,049	187,692,392
Claims receivable - farmers	-	478,437,549	-	-	57,819,515	536,257,064
Installment contracts receivables	75,646,542	-	1,077,182	19,992,392	-	96,716,116
Collateral loans	36,866,008	-	-	2,196,052	3,828,954	42,891,014
Advances to officers and employees	71,173,759	-	-	-	4,458,356	75,632,115
Other receivables	150,826,767	-	-	-	-	150,826,767
Accrued income	130,558,457	-	-	4,516,272	-	135,074,729
Reinsurance assets**	103,033,674	-	-	-	-	103,033,674
Other assets***	<u>64,583,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,583,162</u>
	<u>P 13,833,204,999</u>	<u>P 1,187,552,842</u>	<u>P 3,051,307</u>	<u>P 1,379,093,254</u>	<u>P 649,920,575</u>	<u>P 17,052,822,977</u>

	Neither Past Due nor Impaired					
	Investment Grade	Non- Investment Grade – Satisfactory	Non- Investment Grade – Unsatisfactory	Past Due but not Impaired	Past Due and Impaired	Total
<u>2021</u>						
Cash and cash equivalents*	P 2,560,194,881	P -	P -	P -	P -	P 2,560,194,881
Insurance receivables						
Premiums due and uncollected	-	719,402,535	-	-	126,724,199	846,126,734
Due from agents	-	42,746,882	-	-	17,272,234	60,019,116
Financial assets at FVPL						
Debt securities	3,950,039,991	-	-	-	-	3,950,039,991
AFS financial assets						
Debt securities	6,092,770,327	-	-	-	-	6,092,770,327
Loans and other receivables						
Mortgage loans	1,391,817,655	10,511,569	1,657,648	243,249,070	4,354,285	1,651,590,227
Notes receivable	138,728,642	423,779	2,422,417	1,146,912,922	175,656,210	1,464,143,970
Health management organization (HMO) billback	227,946,020	-	-	-	193,935,232	421,881,252
Policy loans	475,814,778	-	-	-	-	475,814,778
Investment accounts receivable	36,466,655	-	472	57,046,932	13,107,049	106,621,108
Claims receivable - farmers	-	461,748,539	-	-	44,508,525	506,257,064
Installment contracts receivables	9,797,106	-	2,443,345	176,775,838	-	189,016,289
Collateral loans	28,251,465	-	-	64,887,899	5,116,567	98,255,931
Advances to officers and employees	46,199,848	-	-	-	3,974,131	50,173,979
Other receivables	215,020,261	-	-	-	-	215,020,261
Accrued income	96,719,268	-	-	4,516,273	245,494	101,481,035
Reinsurance assets**	38,661,134	-	-	-	-	38,661,134
Other assets***	60,938,580	-	-	-	-	60,938,580
	<u>P 15,369,366,611</u>	<u>P 1,234,833,304</u>	<u>P 6,523,882</u>	<u>P 1,693,388,934</u>	<u>P 584,893,926</u>	<u>P 18,889,006,657</u>

* Excluding cash on hand.

** Reinsurance recoverable on unpaid losses.

*** Pertains to lease and leasehold deposits, contingency fund pool and 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 statement 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 P210.63 million and P205.55 million in 2022 and 2021, respectively. Total amount of past due and impaired assets with collateral is P182.10 million and P183.35 million for 2022 and 2021, 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, 2022 and 2021 (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>
<u>2022</u>					
Policy and contract claims	P 1,547,860	P -	P -	P -	P 1,547,860
Reserve for policyholders' dividends	236,816	-	-	-	236,816
Premium deposits funds	-	-	-	578,432	578,432
Insurance payables	86,987	-	-	-	86,987
Accounts payable and accrued expenses	<u>1,207,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,207,872</u>
	<u>P 3,079,535</u>	<u>P -</u>	<u>P -</u>	<u>P 578,432</u>	<u>P 3,657,967</u>

	<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>
<u>2021</u>					
Policy and contract claims	P 1,870,372	P -	P -	P -	P 1,870,372
Reserve for policyholders' dividends	225,878	-	-	-	225,878
Premium deposits funds	-	-	-	862,210	862,210
Insurance payables	57,384	-	-	-	57,384
Accounts payable and accrued expenses	<u>1,538,271</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,538,271</u>
	<u>P 3,691,905</u>	<u>P -</u>	<u>P -</u>	<u>P 862,210</u>	<u>P 4,554,115</u>

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.

4.7 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 below show the details of the Company's foreign currency-denominated assets and liabilities and their Philippine peso equivalents.

	<u>USD</u>	<u>PHP</u>
<u>December 31, 2022</u>		
Assets:		
Cash and cash equivalents	\$ 3,512,368	P 195,824,565
Financial assets at FVPL	6,437,781	358,938,483
AFS financial assets	3,640,155	202,956,814
Accrued income	<u>146,322</u>	<u>8,158,136</u>
	<u>13,736,626</u>	<u>765,877,998</u>
Liability –		
Insurance contract liabilities	<u>3,645,047</u>	<u>203,229,572</u>
	<u>\$ 10,091,579</u>	<u>P 562,648,426</u>
 <u>December 31, 2021</u>		
Assets:		
Cash and cash equivalents	\$ 2,691,368	P 137,257,059
Financial assets at FVPL	8,655,970	441,445,813
AFS financial assets	5,141,467	262,209,675
Accrued income	<u>135,439</u>	<u>6,907,232</u>
	16,624,244	847,819,779
Liability –		
Insurance contract liabilities	<u>4,203,544</u>	<u>214,376,553</u>
	<u>\$ 12,420,700</u>	<u>P 633,443,226</u>

In translating the foreign currency-denominated assets and liabilities, the exchange rates used were P55.76 to USD1.00 and P51.00 to USD1.00, the PHP-USD prevailing exchange rates as at December 31, 2022 and 2021, 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.

	2022		2021	
Change in variables	7.19%	(7.19%)	6.20%	(6.20 %)
Increase (decrease) on income before income tax	(P 40,454,422)	P 40,454,422	(P 39,273,480)	P 39,273,480
Increase (decrease) on equity	(30,340,817)	30,340,817	(29,455,110)	29,455,110

4.8 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.

	Change in Variables	Increase in on Equity	Decrease in on Equity
<u>December 31, 2022</u>			
In Philippine pesos	+/- 3.34%	P 325,786,813	(P 325,786,813)
In U.S. dollars	+/- 3.47%	16,573,102	(16,573,102)
<u>December 31, 2021</u>			
In Philippine pesos	+/- 1.33%	P 126,141,323	(P 126,141,323)
In U.S. dollars	+/- 0.73%	4,077,053	(4,077,053)

In 2022 and 2021, 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.

4.9 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 32.51% and 16.42% has been observed during 2022 and 2021, respectively. If the quoted price of these securities increased or decreased by that amount, profit before tax would have been changed by P603.39 million and P566.44 million, respectively.

The investment 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.

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(h)].

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, 2022 and 2021.

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, 2022 and 2021, 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, 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.

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 RBC2 ratio under the prevailing standard as at December 31, 2022 and 2021 is 134.19% and 104.33%, 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 RBC2 ratios determined by the Company as at December 31, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Net worth	P 4,426,422,800	P 3,918,066,155
RBC requirement	<u>3,298,599,280</u>	<u>3,755,531,001</u>
RBC2 ratio	<u>134.19%</u>	<u>104.33%</u>

On July 1, 2019, upon the advice of the IC, the Company submitted its Revised Management Plan to address the RBC2 ratio 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 United Coconut Planters Bank (UCPB, now Landbank after the merger).

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 financial performance during 2019, the resulting RBC2 ratio for 2019, as audited and approved by the IC, is 137%, which is already compliant with the minimum RBC requirements of 100% and above the Company's commitment of 65% for the year 2019 as stipulated in the Plan. In 2021, the Company's final RBC2 ratio, as confirmed by the IC, is at 104% [see Note 3.1(h)]. Meanwhile in 2022, the Company reported an RBC2 ratio of 134% which is still subject to confirmation of the IC. The Company was able to meet its committed RBC2 ratio of 110% and 95% in 2022 and 2021, respectively as indicated to its five-year recovery program. With its continuous effort in addressing the RBC2 ratio, the Company is confident that it will be able to comply with the IC requirement before the end of its five-year recovery program.

As at December 31, 2022 and 2021, the amounts of non-admitted assets, as defined under the Insurance Code, which are included in the statements of financial position, are as follows:

	<u>2022</u>	<u>2021</u>
Loans and receivables	P 434,103,550	P 1,272,339,838
Equity securities and other investments	2,063,305	637,784,985
Premiums due and uncollected	270,544,414	453,083,208
Property and equipment	193,848,791	153,076,250
Investment property	14,345,136	352,188,699
Other assets and receivables	<u>1,283,327,816</u>	<u>997,397,987</u>
	<u>P 2,198,233,012</u>	<u>P 3,865,870,967</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 2022 and 2021.

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		
December 31, 2022				
<i>Financial Assets</i>				
At amortized cost:				
Cash and cash equivalents	P 1,398,599	P -	P 1,398,599	P 1,398,599
Insurance receivables	701,940	-	701,940	701,940
Loans and other receivables	3,854,758	-	3,854,758	3,916,495
Accrued income	135,075	-	135,075	135,075
Reinsurance assets	103,034	-	103,034	103,034
Other assets	64,583	-	64,583	64,583
At fair value:				
Financial assets at FVPL	-	4,194,907	4,194,907	4,194,907
AFS financial assets	-	9,126,250	9,126,250	9,126,250
	<u>P 6,257,989</u>	<u>P 13,321,157</u>	<u>P 19,579,146</u>	<u>P 19,640,883</u>
<i>Financial Liabilities</i>				
At amortized cost:				
Policy and contract claims	P 1,547,860	P -	P 1,547,860	P 1,547,860
Reserve for policyholders' dividends	236,816	-	236,816	236,816
Premium deposit funds	578,432	-	578,432	578,432
Insurance payables	86,987	-	86,987	86,987
Accounts payable and accrued expenses	1,207,872	-	1,207,872	1,207,872
Lease liabilities	86,864	-	86,864	86,864
	<u>P 3,744,831</u>	<u>P -</u>	<u>P 3,744,831</u>	<u>P 3,744,831</u>
December 31, 2021				
<i>Financial Assets</i>				
At amortized cost:				
Cash and cash equivalents	P 2,566,395	P -	P 2,566,395	P 2,566,395
Insurance receivables	762,149	-	762,149	762,149
Loans and other receivables	4,738,123	-	4,738,123	5,148,032
Accrued income	101,236	-	101,236	101,236
Reinsurance assets	38,661	-	38,661	38,661
Other assets	60,939	-	60,939	60,939
At fair value:				
Financial assets at FVPL	-	5,139,568	5,139,568	5,139,568
AFS financial assets	-	8,577,972	8,577,972	8,577,972
	<u>P 8,267,503</u>	<u>P 13,717,540</u>	<u>P 21,985,043</u>	<u>P 22,394,952</u>
<i>Financial Liabilities</i>				
At amortized cost:				
Policy and contract claims	P 1,870,372	P -	P 1,870,372	P 1,870,372
Reserve for policyholders' dividends	225,878	-	225,878	225,878
Premium deposit funds	862,210	-	862,210	862,210
Insurance payables	57,384	-	57,384	57,384
Accounts payable and accrued expenses	1,538,271	-	1,538,271	1,538,271
Lease liabilities	31,543	-	31,543	31,543
	<u>P 4,585,658</u>	<u>P -</u>	<u>P 4,585,658</u>	<u>P 4,585,658</u>

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, 2022 and 2021 are grouped into the fair value hierarchy as follows (in thousands):

	Notes	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2022</u>					
Financial assets at FVPL:	9				
Government debt securities		P 2,129,990	P -	P -	P 2,129,990
Corporate debt securities		932,933	-	-	932,933
Equity securities		1,123,935	-	-	1,123,935
Equity investments designated as financial assets at FVPL		-	8,050	-	8,050
AFS financial assets:	10				
Debt securities		2,036,843	-	-	2,036,843
Equity securities		<u>7,089,407</u>	<u>-</u>	<u>-</u>	<u>7,089,407</u>
		<u>P 13,313,108</u>	<u>P 8,050</u>	<u>P -</u>	<u>P 13,321,158</u>

	Notes	Level 1	Level 2	Level 3	Total
December 31, 2021					
Financial assets at FVPL:	9				
Government debt securities		P 2,576,204	P -	P -	P 2,576,204
Corporate debt securities		1,373,836	-	-	1,373,836
Equity securities		1,158,478	-	-	1,158,478
Equity investments designated as financial assets at FVPL		-	31,050	-	31,050
AFS financial assets:	10				
Debt securities		6,092,770	-	-	6,092,770
Equity securities		<u>2,485,202</u>	<u>-</u>	<u>-</u>	<u>2,485,202</u>
		<u>P13,686,490</u>	<u>P 31,050</u>	<u>P -</u>	<u>P 13,717,540</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
December 31, 2022					
<i>Financial assets</i>					
Cash and cash equivalents	7	P 1,398,599	P -	P -	P 1,398,599
Insurance receivables	8	-	-	701,940	701,940
Loans and other receivables	11	-	-	3,916,495	3,916,495
Accrued income	12	-	-	135,075	135,075
Reinsurance assets	13	-	-	103,034	103,034
Other assets	20	<u>-</u>	<u>-</u>	<u>64,583</u>	<u>64,583</u>
		<u>P 1,398,599</u>	<u>P -</u>	<u>P 4,921,127</u>	<u>P 6,319,726</u>
<i>Financial liabilities</i>					
Insurance contract liabilities Reserve for policyholders' dividends	21	P -	P -	P 1,547,860	P 1,547,860
Premium deposit funds	22	-	-	236,816	236,816
Insurance payables	23	-	-	578,432	578,432
Accounts payable and accrued expenses	24	-	-	86,987	86,987
Lease liabilities	25	-	-	1,207,872	1,207,872
	18	<u>-</u>	<u>-</u>	<u>86,864</u>	<u>86,864</u>
		<u>P -</u>	<u>P -</u>	<u>P 3,744,831</u>	<u>P 3,744,831</u>
December 31, 2021					
<i>Financial assets</i>					
Cash and cash equivalents	7	P 2,566,395	P -	P -	P 2,566,395
Insurance receivables	8	-	-	762,149	762,149
Loans and other receivables	11	-	-	5,148,032	5,148,032
Accrued income	12	-	-	101,236	101,236
Reinsurance assets	13	-	-	38,661	38,661
Other assets	20	<u>-</u>	<u>-</u>	<u>60,939</u>	<u>60,939</u>
		<u>P 2,566,395</u>	<u>P -</u>	<u>P 6,111,017</u>	<u>P 8,677,412</u>
<i>Financial liabilities</i>					
Insurance contract liabilities Reserve for policyholders' dividends	21	P -	P -	P 1,870,372	P 1,870,372
Premium deposit funds	22	-	-	225,878	225,878
Insurance payables	23	-	-	862,210	862,210
Accounts payable and accrued expenses	24	-	-	57,384	57,384
Lease liabilities	25	-	-	1,538,271	1,538,271
	18	<u>-</u>	<u>-</u>	<u>31,543</u>	<u>31,543</u>
		<u>P -</u>	<u>P -</u>	<u>P 4,585,658</u>	<u>P 4,585,658</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 fair values of the Company's investment properties measured at fair value amounted to P2.80 billion and P2.07 billion as of December 31, 2022 and 2021, respectively.

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 comparable. 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 2022 and 2021 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>2022</u>	<u>2021</u>
Cash on hand	P 5,931,814	P 6,200,474
Cash in banks	713,744,933	826,175,807
Short-term placements	<u>678,921,995</u>	<u>1,734,019,074</u>
	<u>P1,398,598,742</u>	<u>P2,566,395,355</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 0.10% in both 2022 and 2021.

Short-term placements are made for varying periods from 15 to 30 days and earn effective interest ranging from 0.50% to 5.23% in 2022 and from 0.25% to 2.00% in 2021.

Interest income earned in 2022 and 2021 amounted to P37.60 million and P66.40 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>2022</u>	<u>2021</u>
Premiums due and uncollected	P 803,094,396	P 846,126,734
Due from agents	<u>97,342,475</u>	<u>60,019,116</u>
	900,436,871	906,145,850
Allowance for impairment	<u>(198,497,325)</u>	<u>(143,996,433)</u>
	<u>P 701,939,546</u>	<u>P 762,149,417</u>

All of the company's insurance receivables have been reviewed for indicators of impairment. The movements of allowance for impairment are as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 143,996,433	P 26,723,056
Impairment loss during the year	<u>54,500,892</u>	<u>117,273,377</u>
Balance at end of year	<u>P 198,497,325</u>	<u>P 143,996,433</u>

The impairment losses were recognized as part of Impairment Losses on Financial Assets – net in the statements of comprehensive income.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	<u>2022</u>	<u>2021</u>
Philippines peso	P3,881,145,705	P4,698,122,106
United States dollar	<u>313,761,710</u>	<u>441,445,813</u>
	<u>P4,194,907,415</u>	<u>P5,139,567,919</u>

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

	<u>2022</u>	<u>2021</u>
Government debt securities	P2,129,990,033	P2,576,203,561
Equity securities	1,123,934,818	1,373,836,430
Corporate debt securities	932,932,564	1,158,477,928
Equity investments designated as financial assets at FVPL	<u>8,050,000</u>	<u>31,050,000</u>
	<u>P4,194,907,415</u>	<u>P5,139,567,919</u>

Interest income earned from the Company's FVPL debt securities amounted to P165.59 million and P87.04 million in 2022 and 2021, respectively, and is presented as part of Investment Income account in the statements of comprehensive income (see Note 28).

Dividend income arising from the Company's FVPL equity securities amounted to P12.24 million and P7.44 million in 2022 and 2021, respectively, and is 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>2022</u>	<u>2021</u>
Balance at beginning of year		P5,139,567,919	P5,227,298,429
Additions		1,498,772,303	2,922,833,743
Maturities and disposals		(2,190,795,827)	(3,008,537,723)
Net change in fair value	28	(284,344,699)	(3,176,870)
Foreign exchange gains		<u>31,707,719</u>	<u>1,150,340</u>
Balance at end of year		<u>P4,194,907,415</u>	<u>P5,139,567,919</u>

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>2022</u>	<u>2021</u>
Government debt securities		(P 153,197,592)	P 9,184,849
Equity securities		(76,528,050)	(12,361,719)
Corporate debt securities		(<u>54,619,057</u>)	<u>-</u>
	28	<u>(P 284,344,699)</u>	<u>(P 3,176,870)</u>

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).

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).

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account consists of:

	<u>2022</u>	<u>2021</u>
Debt securities	P 7,089,407,372	P 6,092,770,327
Equity securities at fair value	<u>2,036,842,537</u>	<u>2,485,201,524</u>
	<u>P 9,126,249,909</u>	<u>P 8,577,971,851</u>

As at December 31, 2022 and 2021, government securities with a total value of P314.38 million and P273.44 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.

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

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 8,577,971,851	P 8,206,649,941
Additions	4,485,494,296	2,886,377,569
Maturities and disposals	(3,123,485,172)	(2,290,812,255)
Net change in fair value	(833,665,701)	(225,454,854)
Foreign exchange gains	<u>19,934,635</u>	<u>1,211,450</u>
Balance at end of year	<u>P 9,126,249,909</u>	<u>P 8,577,971,851</u>

As of December 31, 2022 and 2021, management assessed that there is no additional impairment on its AFS financial assets.

The movements in revaluation reserves on AFS financial assets are as follows:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Balance at beginning of year		(P 247,906,208)	(P 22,451,354)
Other comprehensive income:			
Fair value losses - net		(953,165,691)	(260,573,517)
Transferred to profit or loss	28	<u>119,499,990</u>	<u>35,118,663</u>
Balance at end of year		<u>(P1,081,571,909)</u>	<u>(P 247,906,208)</u>

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).

Interest income earned from the Company's AFS debt securities amounted to P280.02 million and P209.71 million in 2022 and 2021, respectively, and is presented as part of Investment Income account in the statements of comprehensive income (see Note 28).

Dividend income arising from the Company's AFS equity securities amounted to P72.25 million and P75.43 million in 2022 and 2021, respectively, and is presented as part of Investment Income account in the statements of comprehensive income (see Note 28).

As of December 31, the maturity profile of the AFS debt securities at carrying amount is as follows:

	<u>2022</u>	<u>2021</u>
Within one year	P 422,718,090	P 1,503,273,805
More than a year to five years	2,606,712,062	2,114,467,186
Beyond five years	<u>4,059,977,220</u>	<u>2,475,029,336</u>
	<u>P 7,089,407,372</u>	<u>P 6,092,770,327</u>

11. LOANS AND OTHER RECEIVABLES

This account consists of:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Note receivable		P1,395,750,900	P1,464,143,970
Mortgage loans		1,005,805,400	1,651,590,227
Claims receivable - farmers		536,257,064	506,257,064
Policy loans		437,123,887	475,814,778
HMO billback		375,461,989	421,881,252
Investment accounts receivable	34	187,692,392	106,621,108
Installment contract receivables		96,716,116	189,016,289
Advances to officers and employees		75,632,115	50,173,979
Collateral loans		42,891,014	98,255,931
Others	34	150,826,767	215,020,261
		4,304,157,644	5,178,774,859
Allowance for impairment losses		(449,399,873)	(440,651,999)
		<u>P3,854,757,771</u>	<u>P4,738,122,860</u>

Note receivable refers to long-term promissory note without collateral and earns prevailing market interest rate ranging from 4.00% to 24.00% in both 2022 and 2021, respectively.

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 4.88% to 15.00% in both 2022 and 2021, with terms ranging from five to ten years.

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 5.00% to 25.00% 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. 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 8.00% to 6.00% for years 2022 and 2021.

Installment contract receivables pertain to the outstanding receivable on foreclosed properties sold to third parties. The interest rate ranges from 0.00% to 12.00% for both years 2022 and 2021 with terms ranging from 2 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 P320.38 million and P400.44 million in 2022 and 2021, respectively, and is presented as part of Interest income presented under Investment Income account in the statements of comprehensive income (see Note 28).

The total fair values of loans and other receivables as at December 31, 2022 and 2021 are disclosed in Note 6.1.

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

	Balance at beginning of the year	Impairment losses	Reversals	Write-offs	Balance at end of the year
2022:					
HMO Billback	P 193,935,232	P -	P -	P -	P 193,935,232
Notes receivable	173,547,067	1,624,919	-	-	175,171,986
Claims receivable - farmers	44,508,525	10,000,000	-	-	54,508,525
Investment accounts receivable	13,107,049	-	-	-	13,107,049
Collateral loans	5,116,567	-	-	-	5,116,567
Mortgage loans	4,354,285	-	(1,252,126)	-	3,102,159
Advances to officers and employees	3,974,131	-	(1,624,919)	-	2,349,212
Others	<u>2,109,143</u>	<u>472,093</u>	<u>-</u>	<u>(472,093)</u>	<u>2,109,143</u>
	<u>P 440,651,999</u>	<u>P 12,097,021</u>	<u>(P 2,877,045)</u>	<u>(P 472,093)</u>	<u>P 449,399,873</u>
2021:					
HMO Billback	P 253,071,359	P -	(P 59,136,127)	P -	P 193,935,232
Notes receivable	161,744,287	11,802,780	-	-	173,547,067
Claims receivable - farmers	34,508,525	10,000,000	-	-	44,508,525
Investment accounts receivable	13,107,049	-	-	-	13,107,049
Collateral loans	5,116,567	-	-	-	5,116,567
Mortgage loans	4,354,285	-	-	-	4,354,285
Advances to officers and employees	3,974,131	-	-	-	3,974,131
Others	<u>2,109,143</u>	<u>6,228,673</u>	<u>-</u>	<u>(6,228,673)</u>	<u>2,109,143</u>
	<u>P 477,985,346</u>	<u>P 28,031,453</u>	<u>(P 59,136,127)</u>	<u>(P 6,228,673)</u>	<u>P 440,651,999</u>

In 2022 and 2021, the Company recognized provision for impairment losses based on the Company's assessment of the individual balances of different receivables.

In 2022, certain notes receivables amounting to P13.53 million were determined to be uncollectible, hence these were directly written-off and charged as part of Impairment losses on financial assets – net in the 2022 statement of comprehensive income. There is no similar transaction in 2021.

As of December 31, 2022 and 2021, the maturity profile of the loans and other receivables at gross amount is as follows:

	<u>2022</u>	<u>2021</u>
Within one year	P 1,024,236,922	P 1,258,114,994
More than a year to five years	2,840,458,852	3,480,179,522
Beyond five years	<u>439,461,870</u>	<u>440,480,343</u>
	<u>P 4,304,157,644</u>	<u>P 5,178,774,859</u>

12. ACCRUED INCOME

This account consists of:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Interest receivable		P 128,791,393	P 95,723,183
Dividend receivable	14	3,950,168	4,754,333
Rent receivable		<u>2,333,168</u>	<u>758,025</u>
		<u>P 135,074,729</u>	<u>P 101,235,541</u>

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.

As of December 31, 2022 and 2021, management assessed that there is no impairment on accrued income.

13. REINSURANCE ASSETS

This account consists of:

	<u>2022</u>	<u>2021</u>
Reinsurance recoverable on unpaid losses	P 95,679,245	P 38,661,134
Reinsurers' share on legal policy reserves	<u>7,354,429</u>	<u>6,488,719</u>
	<u>P 103,033,674</u>	<u>P 45,149,853</u>

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

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Balance at beginning of year		P 38,661,134	P 3,160,170
Claims incurred during the year	30	64,371,724	53,577,333
Claims paid during the year		<u>(7,353,613)</u>	<u>(18,076,369)</u>
Balance at end of year		<u>P 95,679,245</u>	<u>P 38,661,134</u>

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

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 6,488,719	P 6,728,529
Premiums received	15,612,230	14,334,632
Liability released for payments of death, maturity and surrender benefits and claims	<u>(14,746,520)</u>	<u>(14,574,442)</u>
Balance at end of year	<u>P 7,354,429</u>	<u>P 6,488,719</u>

14. INVESTMENTS IN SUBSIDIARIES

As of December 31, 2022 and 2021, this account consists of:

	<u>2022</u>	<u>2021</u>
Subsidiaries:		
Cocogen	P 958,815,052	P 801,794,875
Cocoplans	832,040,671	722,040,671
Ultra	140,983,155	13,983,155
CAMCI	50,000,000	50,000,000
Healthassist	20,000,000	10,000,000
	2,001,838,878	1,597,818,701
Allowance for impairment losses	(262,358,087)	(262,358,087)
	<u>P1,739,480,791</u>	<u>P1,335,460,614</u>

The Company has made additional capital infusion to Cocoplans amounting to P110.00 million and P175.81 million in 2022 and 2021, respectively, as well as to Healthassist, Cocogen, and Ultra in amounts of P10.00 million, P157.02 million, and P127.00 million, respectively, in 2022.

In 2021, the Company sold all its shareholding in Direct Link Insurance Agency, Inc. to a third party at cost. No gain or loss was recognized on the sale.

As of December 31, 2022 and 2021, the Company did not recognize additional impairment on investments in subsidiaries.

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>2022</u>					
Total assets	P5,635,741,823	P1,045,446,219	P 238,839,931	P 63,004,625	P 27,465,760
Total liabilities	3,940,270,322	967,939,208	178,906,268	9,955,240	1,572,982
Equity	1,695,471,501	77,507,011	59,933,663	53,049,385	25,892,778
Revenues	1,977,270,668	44,810,059	335,802	38,565,500	13,726,654
Net income (loss)	222,690,325	30,930,262	14,200	1,913,977	1,095,619
Other comprehensive loss	(82,437,955)	(735,689)	-	(1,066,776)	-
Total comprehensive income	140,252,370	30,194,573	14,200	847,201	1,095,619
<u>2021</u>					
Total assets	P4,689,845,672	P 985,289,095	P 107,047,469	P 60,972,889	P 15,845,166
Total liabilities	3,190,632,306	1,047,976,656	55,831,514	5,770,705	1,048,007
Equity (capital deficiency)	1,499,213,366	(62,687,561)	51,215,955	55,202,184	14,797,159
Revenues	1,781,056,188	76,666,074	273,993,000	42,208,186	9,146,586
Net income (loss)	8,786,796	(209,218,592)	13,518,300	6,939,745	(251,720)
Other comprehensive income (loss)	57,404,236	9,330,339	-	(718,060)	674,729
Total comprehensive income (loss)	66,191,032	(199,888,253)	13,518,300	6,221,685	423,009

Dividend income from the Company's subsidiaries amounted to P11.91 million and P5.00 million in 2022 and 2021, 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, 2022 and 2021 is included as part of Accrued Income in the statements of financial position (see Notes 12).

15. REAL ESTATE INVENTORIES

The movements in this account are as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 11,248,136	P 15,664,636
Disposals	(5,522,000)	(4,416,500)
Balance at end of year	<u>P 5,726,136</u>	<u>P 11,248,136</u>

In 2022 and 2021, total gain from sale of columbarium units amounted to P6.64 million and P4.07 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 P23.06 million and P28.24 million as at December 31, 2022 and 2021, 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 2022 and 2021 are shown below.

	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>January 1, 2021</u>
Acquisition cost	P1,139,928,659	P1,030,657,332	P 936,602,125
Accumulated depreciation	(156,527,499)	(142,228,094)	(121,265,549)
Carrying amount	<u>P 983,401,160</u>	<u>P 888,429,238</u>	<u>P 815,336,576</u>

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2022 and 2021 is shown below.

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Balance at beginning of year, net of accumulated depreciation		P 888,429,238	P 815,336,576
Additions		155,625,585	102,695,277
Disposals		(47,915,699)	(39,230,061)
Depreciation charges for the year	31	(14,299,406)	(13,422,259)
Transfers	17	<u>1,561,442</u>	<u>23,049,705</u>
Balance at end of year, net of accumulated depreciation		<u>P 983,401,160</u>	<u>P 888,429,238</u>

As at December 31, 2022 and 2021, the estimated fair value of these investment properties amounted to P2.80 billion and P2.07 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 2022 and 2021, the Company sold investment properties with a carrying value of P47.92 million and P39.23 million, respectively. Gain on sale of investment properties in 2022 and 2021 amounting to P6.87 million and P8.09 million, respectively, was recognized under Investment Income in the statements of comprehensive income (see Note 28).

Rental income in 2022 and 2021 arising from the lease of investment properties amounted to P46.89 million and P32.07 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 P14.30 million and P13.42 million in 2022 and 2021, 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, 2022 and 2021 are shown below:

	<u>Land</u>	<u>Building and Leasehold Improvements</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Total</u>
December 31, 2022					
Cost	P 8,444,444	P 329,950,488	P 143,384,514	P 329,230,799	P 811,010,245
Accumulated depreciation and amortization	-	(236,398,467)	(83,691,650)	(242,412,798)	(562,502,915)
Net carrying amount	<u>P 8,444,444</u>	<u>P 93,552,021</u>	<u>P 59,692,864</u>	<u>P 86,818,001</u>	<u>P 248,507,330</u>
December 31, 2021					
Cost	P 8,444,444	P 277,275,776	P 131,915,629	P 318,652,054	P 736,287,903
Accumulated depreciation and amortization	-	(225,496,085)	(67,571,960)	(228,772,160)	(521,840,205)
Net carrying amount	<u>P 8,444,444</u>	<u>P 51,779,691</u>	<u>P 64,343,669</u>	<u>P 89,879,894</u>	<u>P 214,447,698</u>
January 1, 2021					
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)
Net carrying amount	<u>P 12,665,400</u>	<u>P 46,074,745</u>	<u>P 35,383,440</u>	<u>P 72,829,247</u>	<u>P 166,952,832</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of December 31, 2022 and 2021 is shown below.

	<u>Land</u>	<u>Buildings and Leasehold Improvements</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Total</u>
Balance at January 1, 2022 net of accumulated depreciation and amortization	P 8,444,444	P 51,779,691	P 64,343,669	P 89,879,894	P 214,447,698
Additions	-	54,036,063	15,151,028	23,607,334	92,794,425
Disposals	-	(1,261,255)	(2,708,715)	(11,780,081)	(15,750,051)
Transfers	-	(1,175,252)	-	(386,190)	(1,561,442)
Depreciation and amortization charges for the year	-	(9,827,226)	(17,093,118)	(14,502,956)	(41,423,300)
Balance at December 31, 2022 net of accumulated depreciation and amortization	<u>P 8,444,444</u>	<u>P 93,552,021</u>	<u>P 59,692,864</u>	<u>P 86,818,001</u>	<u>P 248,507,330</u>
Balance at January 1, 2021 net of accumulated depreciation and amortization	P 12,665,400	P 46,074,745	P 35,383,440	P 72,829,247	P 166,952,832
Additions	-	40,546,061	55,916,943	41,389,886	137,852,890
Disposals	-	(3,010,763)	(17,590,697)	(2,937,999)	(23,539,459)
Transfers	(4,220,956)	(18,828,749)	-	-	(23,049,705)
Depreciation and amortization charges for the year	-	(13,001,603)	(9,366,017)	(21,401,240)	(43,768,860)
Balance at December 31, 2021 net of accumulated depreciation and amortization	<u>P 8,444,444</u>	<u>P 51,779,691</u>	<u>P 64,343,669</u>	<u>P 89,879,894</u>	<u>P 214,447,698</u>

The Company has reclassified certain land and building amounting to P1.56 million and P23.05 million from Property and Equipment to Investment Property in 2022 and 2021, respectively (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 P0.16 million and P0.30 million in 2022 and 2021, respectively (see Note 28).

As of December 31, 2022 and 2021, the gross carrying amount of the Company's fully depreciated property and equipment that are still in use is P233.69 million and P497.80 million, respectively. In 2022, the Company has retired various fully depreciated property and equipment with total cost of P264.11 million. There is no similar transaction in 2021.

18. LEASES

The Company has leases for certain office spaces. With the exception of short-term leases, each lease is reflected on the statement of financial positions as a Right-of-use Assets and Lease Liabilities. 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 nature of the Company's leasing activities recognized in the statements of financial position is described below.

	<u>2022</u>	<u>2021</u>
Number of underlying assets leased	24	37
Range of remaining term	1 – 4 years	1 – 5 years
Average remaining lease term	2 years	3 years

18.1 Right-of-use Assets

The carrying amount of the Company's right-of-use assets as at December 31, 2022 and 2021 and the movements during the year are shown below.

	<u>2022</u>	<u>2021</u>
Cost	P 216,642,003	P 118,072,896
Accumulated amortization	(135,659,496)	(92,274,973)
Net carrying amount	<u>P 80,982,507</u>	<u>P 25,797,923</u>

A reconciliation of the carrying amount of right-of-use assets at beginning and end of 2022 and 2021 is shown below.

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Balance at the beginning of the year		P 25,797,923	P 41,319,072
Additions during the year		98,569,107	11,673,901
Amortization charges during the year	31	(43,384,523)	(27,195,050)
Balance at end of year		<u>P 80,982,507</u>	<u>P 25,797,923</u>

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).

18.2 Lease Liabilities

Lease liabilities are presented in the statements of financial position as at December 31 as follows:

	<u>2022</u>	<u>2021</u>
Current	P 39,439,999	P 16,407,900
Non-current	<u>47,423,679</u>	<u>15,135,292</u>
	<u>P 86,863,678</u>	<u>P 31,543,192</u>

The movements in the lease liabilities recognized in the statements of financial position are as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 31,543,192	P 43,942,885
Cash flows from financing activities – Repayment of lease liability including interest	(44,929,728)	(26,983,158)
Non-cash financing activities: Additional lease obligation	98,569,107	11,673,901
Interest amortization on lease liabilities	<u>1,681,107</u>	<u>2,909,564</u>
	<u>P 86,863,678</u>	<u>P 31,543,192</u>

In 2022 and 2021, the Company did not have any lease modifications or rent concession from lessors.

The lease liabilities are secured by the related underlying assets. The maturity analysis of lease liabilities at December 31, 2022 and 2021 is as follows:

	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Total</u>
<u>December 31, 2022</u>						
Lease payments	P 41,271,991	P 33,607,735	P 13,518,157	P 971,372	P -	P 89,369,255
Interest expense	(1,831,992)	(555,866)	(110,837)	(6,882)	-	(2,505,577)
Net present value	<u>P 39,439,999</u>	<u>P 33,051,869</u>	<u>P 13,407,320</u>	<u>P 964,490</u>	<u>P -</u>	<u>P 86,863,678</u>
<u>December 31, 2021</u>						
Lease payments	P 18,282,027	P 12,216,334	P 2,123,427	P 1,161,702	P 700,166	P 34,483,656
Interest expense	(1,874,127)	(975,642)	(65,958)	(19,693)	(5,044)	(2,940,464)
Net present value	<u>P 16,407,900</u>	<u>P 11,240,692</u>	<u>P 2,057,469</u>	<u>P 1,142,009</u>	<u>P 695,122</u>	<u>P 31,543,192</u>

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 P34.11 million and P49.26 million which are presented as Rent expense under General and Administrative Expenses account in the 2022 and 2021 statement of comprehensive income, respectively (see Note 31).

18.4 Lease Payments Not Recognized as Liabilities

The total cash outflow in respect of leases amounted to P79.03 million and P76.24 million in 2022 and 2021, respectively. Interest expense in relation to lease liabilities amounted to P1.68 million and P2.91 million which is presented as Interest expense on lease liability under General and Administrative Expenses account the 2022 and 2021 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, 2022 and 2021 follow:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>January 1, 2021</u>
Acquisition cost	P 298,426,287	P 255,808,327	P 188,766,034
Accumulated amortization	(175,431,816)	(155,565,208)	(144,615,493)
Carrying amount	<u>P 122,994,471</u>	<u>P 100,243,119</u>	<u>P 44,150,541</u>

A reconciliation of the carrying amounts at the beginning and end of 2022 and 2021, of intangible assets is shown below.

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Balance at beginning of year, net of accumulated amortization		P 100,243,119	P 44,150,541
Additions		42,633,076	67,247,400
Amortization charges for the year	31	(19,881,724)	(11,154,822)
Balance at end of year, net of accumulated amortization		<u>P 122,994,471</u>	<u>P 100,243,119</u>

20. OTHER ASSETS

The composition of this account is shown below.

	<u>2022</u>	<u>2021</u>
Bureau of Internal Revenue (BIR) tax credits	P 281,258,274	P 118,972,739
Prepaid expense	195,157,578	318,926,262
Deferred charges	33,376,006	25,215,507
Lease and leasehold deposits	33,281,681	30,184,000
Refundable deposits	23,601,437	23,058,923
Contingency fund pool	7,700,044	7,695,657
Laboratory supplies inventory	3,685,970	3,578,919
Others	883,926	966,245
	<u>P 578,944,916</u>	<u>P 528,598,252</u>

Prepaid expense includes access fee paid on the bancassurance arrangement with UCPB Savings and UCPB entered by the Company. Prior to 2020, 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. The Company also paid a refundable access fee 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 short-term 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>2022</u>	<u>2021</u>
Legal policy reserves	3.2(a)	P13,969,195,511	P 15,919,762,593
Policy and contract claims	3.2(b)	<u>1,547,859,823</u>	<u>1,870,371,575</u>
		<u>P15,517,055,334</u>	<u>P 17,790,134,168</u>

Total IBNR recognized by the Company amounted to P0.88 billion and P1.20 billion as at December 31, 2022 and 2021, 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>2022</u>	<u>2021</u>
Balance at beginning of year	P15,919,762,593	P16,847,131,230
Premiums received	6,057,129,026	5,368,496,396
Liability released for payments of death, maturity and surrender benefits and claims	(6,750,446,972)	(5,807,041,089)
Accretion of investments income or change in unit prices	291,660,023	733,201,728
Adjustment due to change in assumptions:		
Investment return	(1,570,969,855)	(1,060,118,808)
Mortality/morbidity	-	(210,483,500)
Others	<u>22,060,696</u>	<u>48,576,636</u>
Balance at end of year	<u>P13,969,195,511</u>	<u>P 15,919,762,593</u>

The movements in policy and contract claims are as follows:

	Note	<u>2022</u>	<u>2021</u>
Balance at beginning of year		P 1,870,371,575	P 2,062,470,085
Incurred during the year	30	5,015,842,680	4,237,749,215
Paid during the year		(5,338,354,432)	(4,429,847,725)
Balance at end of year		<u>P 1,547,859,823</u>	<u>P 1,870,371,575</u>

As at December 31, 2022 and 2021, assets held to cover unit-linked liabilities amounting to P3.12 billion and P2.67 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, Peso Bond Fund, Asian Multi-Asset Bond Fund, and Global Consumer Trend Investment Fund (see Note 36).

22. RESERVE FOR POLICYHOLDERS' DIVIDENDS

The movements in this account is shown below.

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 225,878,023	P 207,893,565
Dividends participating policies	36,264,436	40,599,087
Dividends applied	(25,326,492)	(22,614,629)
Balance at end of year	<u>P 236,815,967</u>	<u>P 225,878,023</u>

Reserve for policyholder's dividends represents due and unpaid dividends to policyholders with participation-type insurance contracts.

Dividends participating policies is presented as Policyholders' Dividends in the statements of profit or loss.

23. PREMIUM DEPOSIT FUNDS

The composition of this account are shown below.

	<u>2022</u>	<u>2021</u>
Premium deposits	P 408,509,712	P 708,016,529
HMO guarantee deposits	56,820,933	39,663,156
Premium deposit fund	50,170,314	51,285,811
Fund builder rider	49,122,910	46,928,277
Claims deposit	<u>13,807,704</u>	<u>16,315,731</u>
	<u>P 578,431,573</u>	<u>P 862,209,504</u>

24. INSURANCE PAYABLES

This account represents reinsurance premiums due and payable by the Company to all its reinsurers whether treaty or facultative. As of December 31, 2022 and 2021, this account amounted to P86.99 million and P57.38 million, respectively.

The movements in this account are shown below.

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Balance at beginning of year		P 57,384,124	P 38,762,216
Incurred during the year	27	58,861,944	49,717,964
Paid during the year		(29,290,694)	(31,098,836)
Foreign exchange loss		31,345	2,780
Balance at end of year		<u>P 86,986,719</u>	<u>P 57,384,124</u>

Reinsurance premiums incurred during the year is presented as Reinsurance premiums ceded under Net Insurance Premiums in the statements of comprehensive income.

25. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

These accounts consist of:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Accounts payable and accrued expenses:			
Accounts payable		P 768,553,705	P 964,775,971
Accrued incentives and bonuses		266,141,145	367,721,450
Loading payables		84,118,536	124,954,532
Investment accounts payable	34	48,698,728	47,614,769
Supplementary contracts without life contingency		36,658,943	29,370,141
Agents' fidelity and annuity reserves		3,701,264	3,834,164
		<u>P1,207,872,321</u>	<u>P1,538,271,027</u>
Other liabilities:			
Payable to government agencies		P 40,138,715	P 42,800,714
Deferred credits		6,518,474	108,458,311
Others		865,978	865,978
		<u>P 47,523,167</u>	<u>P 152,125,003</u>

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.

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.

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 5.50% to 8.00% in 2022 and 2021. Interest expense incurred on these loans amounted to P59.75 million and P181.02 million in 2022 and 2021, respectively was presented under Investment expenses in the statements of comprehensive income (see Note 28).

Supplementary contracts without life contingency represent claims which are held by the Company and are paid in monthly instalments 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.

Payable to government agencies 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, 2022 and 2021, the Company has authorized shares of 1,000,000,000 and has issued and outstanding shares amounted to P550 million with a par value of P1 per share.

As of December 31, 2022 and 2021, the Company has 36 stockholders owning 100 or more shares each of the Company's capital stock.

26.2 Retained Earnings

As at December 31, 2022 and 2021, the Company has appropriated retained earnings amounting to P87.49 million and P62.79 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 2.19).

As of December 31, 2022 and 2021, the unappropriated retained earnings of the Company has already exceeded the paid-in capital stock. This is non-compliant with 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, 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>Note</u>	<u>2022</u>	<u>2021</u>
Direct:			
Accident and health		P5,042,674,858	P4,386,058,118
Group life insurance		1,259,392,707	1,122,601,475
Ordinary life insurance		819,758,790	831,542,785
Unit-linked		<u>96,321,536</u>	<u>97,338,466</u>
		7,218,147,891	6,437,540,844
Assumed group life insurance		<u>76,325,525</u>	<u>69,181,774</u>
		<u>7,294,473,416</u>	<u>6,506,722,618</u>
Reinsurance premiums ceded:			
Group life insurance		43,249,714	35,383,333
Accident and health		15,419,886	12,127,396
Ordinary life insurance		<u>192,344</u>	<u>2,207,235</u>
	24	<u>58,861,944</u>	<u>49,717,964</u>
		<u>P7,235,611,472</u>	<u>P6,457,004,654</u>

28. INVESTMENT INCOME, INVESTMENT EXPENSES AND OTHER INCOME

Investment income account consists of:

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Interest income on:			
Loans and other receivables	11	P 320,375,519	P 400,441,704
AFS financial assets	10	280,020,877	209,705,568
Financial assets at FVPL	9	165,588,308	87,038,113
Cash and cash equivalents	7	37,604,363	66,404,650
Others:			
Unrealized fair value losses on financial assets at FVPL - net	9	(284,344,699)	(3,176,870)
Gain on sale of AFS financial assets	10	119,499,990	35,118,663
Dividend income	9, 10, 14	96,403,711	87,873,767
Rental income	16	46,889,531	32,065,749
Gain on sale of investment properties	16	6,865,361	8,092,161
Loss on sale of financial assets at FVPL	9	(2,113,682)	(10,420,900)
		<u>P 786,789,279</u>	<u>P 913,142,605</u>

Investment expenses account consists of:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Interest expense	25	P 59,746,511	P 181,024,325
Foreclosure charges		15,930,166	1,280,075
Management fee		242,185	15,171,681
Others		<u>56,302,841</u>	<u>43,432,818</u>
		<u>P 132,221,703</u>	<u>P 240,908,899</u>

Other income account consists of:

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Foreign exchange gains – net		P 8,065,441	P 2,359,010
Gain on sale of real estate inventories	15	6,638,326	4,070,226
Gain on sale of property and equipment	17	162,500	299,093
Miscellaneous income		<u>3,458,360</u>	<u>2,371,777</u>
		<u>P 18,324,627</u>	<u>P 9,100,106</u>

29. SERVICE FEES

This account consists of:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
HMO fees	11	P 586,532,530	P 503,975,041
Policy fees		49,808,767	37,591,930
Cancellation fees		9,866,720	6,275,982
Other service fees		<u>4,861,104</u>	<u>3,856,587</u>
		<u>P 651,069,121</u>	<u>P 551,699,540</u>

30. NET INSURANCE BENEFITS AND CLAIMS

Gross benefits and claims paid on insurance contracts consist of:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
Accident and health		P3,746,115,605	P2,662,945,981
Group life insurance		813,237,978	1,067,510,493
Maturities and surrenders		435,834,465	387,435,734
Ordinary life insurance		<u>20,654,632</u>	<u>119,857,007</u>
	21	<u>P5,015,842,680</u>	<u>P4,237,749,215</u>

Share on benefits and claims of reinsurers amounted to P64.37 million and P53.58 million in 2022 and 2021, respectively, and is presented under Net Insurance Benefits and Claims in the statements of comprehensive income (See Note 13).

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>
<u>2022</u>			
Ordinary life insurance	(P 444,197,321)	P 865,710	(P 443,331,611)
Group life insurance	(51,940,642)	-	(51,940,642)
Accident and health	175,273,678	-	175,273,678
Foreign exchange loss	(48,941,487)	-	(48,941,487)
	<u>(P 369,805,772)</u>	<u>P 865,710</u>	<u>P 368,940,062</u>
<u>2021</u>			
Ordinary life insurance	P 339,807,796	P 239,810	P 340,047,606
Group life insurance	(123,936,058)	-	(123,936,058)
Accident and health	(24,507,108)	-	(24,507,108)
Foreign exchange loss	(40,096,142)	-	(40,096,142)
	<u>P 151,268,488</u>	<u>P 239,810</u>	<u>P 151,508,298</u>

31. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Salaries and employee benefits	32.1	P 795,448,515	P 669,837,534
HMO miscellaneous expenses		378,351,819	403,598,864
Other Insurance cost		300,199,954	240,679,402
Depreciation and amortization	16, 17, 18, 19	118,988,953	95,540,991
Rent expense	18	34,108,178	49,263,301
Utilities		29,938,488	61,981,533
Taxes and licenses		27,645,349	46,507,212
Directors' fees		24,298,900	19,870,480
Advertising and promotions		21,555,458	162,600,098
Professional fees		18,304,909	34,670,146
Entertainment, amusement and recreation		15,336,427	20,255,567
Postage and telephone		13,804,006	27,979,186
Printing and office supplies		13,726,757	23,400,961
Transportation and travel		12,263,617	11,594,655
Repairs and maintenance		9,697,991	30,647,026
Service fees		8,389,876	14,570,458
Training and development		8,087,325	36,699,230
Meeting and conferences		7,517,299	15,730,109
Insurance		2,493,803	4,595,443
Interest expense on lease liabilities	18	1,681,107	2,909,564
Condominium dues		1,092,099	1,211,735
Medical fees		787,166	834,626
Agency development allowance		-	392,562
Donations and contributions		-	4,500,000
Miscellaneous expense		<u>3,159,925</u>	<u>14,402,410</u>
		<u>P1,846,877,921</u>	<u>P1,994,273,093</u>

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>2022</u>	<u>2021</u>
Salaries and wages		P 720,108,411	P 607,672,598
Retirement benefit	32.2	<u>75,340,104</u>	<u>62,164,936</u>
	31	<u>P 795,448,515</u>	<u>P 669,837,534</u>

32.2 Retirement Benefit

(a) 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, 2022.

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.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in succeeding pages for the years ended December 31, 2022 and 2021 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>2022</u>	<u>2021</u>
Present value of retirement benefit obligation	P 769,927,463	P 948,655,611
Fair value of plan assets	(763,654,918)	(850,155,203)
	<u>P 6,272,545</u>	<u>P 98,500,408</u>

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

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	P 948,655,611	P 892,217,243
Benefits paid	(147,738,290)	(99,390,191)
Current service cost	70,316,582	58,656,278
Interest expense	48,381,436	34,796,472
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	(163,526,323)	(115,352,001)
Experience adjustments	37,653,018	177,727,810
Allocable liabilities to CAMCI and COCOGEN	(23,814,571)	-
Balance at end of year	<u>P 769,927,463</u>	<u>P 948,655,611</u>

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

	<u>2022</u>	<u>2021</u>
Fair value of plan assets at beginning of year	P 850,155,203	P 802,251,630
Contributions paid by employer	108,767,757	122,023,192
Benefits paid	(147,738,290)	(99,390,191)
Interest income	43,357,914	31,287,814
Return on plan assets (excluding amounts included in net interest cost or income)	(67,073,095)	(6,017,242)
Fair value of plan asset allocable to CAMCI and COCOGEN	(23,814,571)	-
Fair value of plan assets	<u>P 763,654,918</u>	<u>P 850,155,203</u>

The plan incurred a loss of P23.72 million in 2022, as compared to earning a return of P25.27 million 2021.

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>2022</u>	<u>2021</u>
Cash and cash equivalents	P 128,906,673	P 253,477,388
Available-for-sale securities:		
Equity investments	470,158,840	110,649,826
Debt instruments	166,707,250	464,335,903
Financial assets at amortized cost	-	19,928,498
Accrued interest income from financial assets	22,918,566	1,832,557
Other assets	88,714	363,984
Accounts payable and accrued expenses	(1,310,554)	(432,953)
Allocated liabilities	(23,814,571)	-
	<u>P 763,654,918</u>	<u>P 850,155,203</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>2022</u>	<u>2021</u>
<i>Reported in profit or loss:</i>		
Current service cost	P 70,316,582	P 58,656,278
Net interest cost	<u>5,023,522</u>	<u>3,508,658</u>
	<u>P 75,340,104</u>	<u>P 62,164,936</u>
<i>Reported in other comprehensive loss (income)</i>		
Actuarial losses (gains) arising from:		
Experience adjustments	P 37,653,018	P 177,727,810
Changes in financial assumptions	(163,526,323)	(115,352,001)
Return on plan assets (excluding amounts included in net interest cost or income)	<u>67,073,095</u>	<u>6,017,242</u>
	<u>(P 58,800,210)</u>	<u>P 68,393,051</u>

Current service cost and net interest cost are included as part of Salaries and employee benefits under General and Administrative Expenses 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Discount rates	7.20%	5.10%
Expected rate of salary increases	4.00%	4.00%

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 9 years and 10 years as at December 31, 2022 and 2021, respectively.

(c) *Risks Associated with the Retirement Plan*

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

(d) *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.

(e) *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.

(f) *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.

(g) *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, 2022 and 2021:

	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>December 31, 2022</u>			
Discount rate	+/- 1%	(P 55,698,308)	P 77,757,224
Salary growth rate	+/- 1%	72,685,337	(52,266,257)
<u>December 31, 2021</u>			
Discount rate	+/- 1%	(P 109,931,943)	P 65,261,769
Salary growth rate	+/- 1%	57,309,283	(104,565,009)

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.

(b) *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, 2022 and 2021 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.

(i) *Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P6.27 million based on the latest actuarial valuation. Hence, the Company expects to make contribution of P100.00 million to the plan during the next reporting period.

33. INCOME TAX

On March 26, 2021, RA No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The CREATE Act aims to lower certain corporate taxes and rationalize tax incentives given to certain taxpayers. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company:

- regular corporate income tax (RCIT) rate is decreased from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

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>2022</u>	<u>2021</u>
<i>Reported in profit and loss</i>		
Current tax expense:		
Final tax at 20% and 7.50%	P 91,951,589	P 68,697,473
RCIT at 25%	31,764,746	43,005,547
Adjustment in 2021 income taxes due to change in income tax rate	<u>-</u>	(<u>10,920,218</u>)
	<u>123,716,335</u>	<u>100,782,802</u>
Deferred tax expense (income) relating to:		
Origination and reversal of temporary differences	(5,942,952)	(2,340,974)
Effect of change in income tax rates	<u>-</u>	<u>13,100,281</u>
	<u>(5,942,952)</u>	<u>10,759,307</u>
	<u>P 117,773,383</u>	<u>P 111,542,109</u>
<i>Reported in other comprehensive income</i>		
Deferred tax on:		
Remeasurement of net pension liability	P 14,700,053	(17,098,263)
Effect of change in income tax rates	<u>-</u>	<u>20,095,397</u>
	<u>P 14,700,053</u>	<u>P 2,997,134</u>

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

	<u>2022</u>	<u>2021</u>
Tax on pretax profit at 25%	P 123,788,269	P 152,612,959
Adjustment for income subject to lower tax rate	(50,547,032)	(24,089,904)
Tax effects of:		
Non-taxable income	44,532,146	(19,161,009)
Effect of change in income tax rate	<u>-</u>	<u>2,180,063</u>
	<u>P 117,773,383</u>	<u>P 111,542,109</u>

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

	Statements of Comprehensive Income					
	Statements of Financial Position		Profit or Loss		Other Comprehensive Income	
	2022	2021	2022	2021	2022	2021
<i>Deferred tax assets</i>						
Allowance for impairment losses	P 111,018,706	P 91,825,008	P 19,193,698	P 5,617,008	P -	P -
Unamortized past service cost	67,492,376	70,993,577	(3,501,201)	(9,916,844)	-	-
Lease liability	21,715,920	7,885,797	13,830,123	10,638,057	-	-
Net pension liability	<u>1,568,137</u>	<u>24,625,102</u>	<u>(8,356,911)</u>	<u>632,552</u>	<u>(14,700,053)</u>	<u>(2,997,134)</u>
	<u>201,795,139</u>	<u>195,329,484</u>	<u>21,165,709</u>	<u>6,970,773</u>	<u>(14,700,053)</u>	<u>(2,997,134)</u>
<i>Deferred tax liabilities</i>						
Right-of-use asset	(20,245,627)	(6,449,481)	(13,796,146)	(15,068,825)	-	-
Unrealized foreign exchange gains (losses) – net	<u>(2,016,362)</u>	<u>(589,752)</u>	<u>(1,426,611)</u>	<u>(2,661,255)</u>	<u>-</u>	<u>-</u>
	<u>(22,261,989)</u>	<u>(7,039,233)</u>	<u>(15,222,757)</u>	<u>(17,730,080)</u>	<u>-</u>	<u>-</u>
Net deferred tax assets - net	<u>P 179,533,150</u>	<u>P 188,290,251</u>	<u>P 5,942,952</u>	<u>(P 10,759,307)</u>	<u>(P 14,700,053)</u>	<u>(P 2,997,134)</u>
Deferred tax income (expense) - net			<u>P 5,942,952</u>	<u>(P 10,759,307)</u>	<u>(P 14,700,053)</u>	<u>(P 2,997,134)</u>

The Company is subject to MCIT which is computed at 1% in 2022 and 2021, of gross income net of allowable deductions, as defined under the tax regulations, or to RCIT, whichever is higher. No MCIT was recognized in 2022 and 2021 as the RCIT was higher than MCIT in those years.

In 2022 and 2021, 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:

	Year	Note	Amount of Transaction	Due from Related Parties	Due to Related Parties	Terms and Conditions
United Fund, Inc. (UFI) – under Common Control						
Investments collected in behalf of UFI	2022	34a	P -	P 89,161	P -	Due and demandable; non-interest bearing; unsecured
	2021	34a	P 76,618	P 84,118	P 7,500	
Cocolife Fixed Income Fund, Inc. (CFIFI) – Under Common Control						
Investment collected on behalf of CFIFI	2022	34c	-	89,161	-	Due and demandable; non-interest bearing; unsecured
	2021	34c	(58,708)	84,118	175,826	
Cocolife Dollar Fund Builder, Inc. (CDFBI) – under Common Control						
Centralized administrative services	2022	34c	-	89,161	-	Due and demandable; non-interest bearing; unsecured
	2021	34c	84,118	84,118	-	
CAMCI – Subsidiary						
Allocation of expenses for centralized personnel and technical services	2022	34b	-	6,605,530	-	Due and demandable; non-interest bearing; unsecured
	2021	34b	-	1,953,231	14,347	
Healthassist - Subsidiary						
Advances	2022	34d	-	52,010	-	Due and demandable; non-interest bearing;
	2021	34d	70,097	70,097	-	
Cocoplans – Subsidiary						
Advances	2022	34d	-	899,214	-	Due and demandable; non-interest bearing unsecured
	2021	34d	-	862,320	-	
Cocogen – Subsidiary						
Advances	2022	34d	-	12,676,595	-	Due and demandable; unsecured
	2021	34d	-	14,634,625	14,143	
Key Management Personnel						
Compensation	2022	34d	-	182,229,879	-	
	2021	34d	-	161,260,282	-	

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 and CDFBI 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 – Investments accounts receivable under Loans and Other Receivables account (see Note 11); and,
- c. 34d – Other advances under Loans and Other Receivables account (see Note 11).

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>2022</u>	<u>2021</u>
Short-term employee benefits	P 126,605,755	P 141,187,729
Post-employment benefits	<u>55,624,124</u>	<u>20,072,553</u>
	<u>P 182,229,879</u>	<u>P 161,260,282</u>

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. COMMITMENTS AND CONTINGENCIES

35.1 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Within one year	P 29,189,383	P 11,905,614
After one year but not more than five years	<u>38,787,069</u>	<u>12,313,263</u>
	<u>P 67,976,452</u>	<u>P 24,218,877</u>

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

35.2 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, 2022 and 2021, management is of the opinion that losses, if any, from those items will not have a material effect on the Company's financial statements.

36. 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 below. 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.

	Dollar Guaranteed Fund	Peso Guaranteed Fund	Peso Medium Term Guaranteed Fund	Peso Long Term Guaranteed Fund	Total
2022					
Assets					
Cash and cash equivalents	P 45,487,484	P 176,464,718	P 743,240	P 3,178,436	P 255,873,878
Financial assets at FVPL	173,963,545	689,630,179	-	-	863,593,724
AFS Financial Assets	16,057,440	1,063,457,730	265,453,847	-	1,344,969,017
Loans and other receivables	-	600,395,356	-	-	600,395,356
Accrued income	2,901,526	16,613,990	835,134	904	20,351,554
Total	P 238,409,995	P 2,546,561,973	P 267,032,221	P 3,179,340	P 3,055,183,529
Liabilities					
Insurance contract liabilities	P 159,701,252	P 2,421,287,859	P 42,939,319	P -	P 2,623,928,431
Accounts payable and accrued expenses	325,141	-	28,396,574	-	28,721,715
Total	P 160,026,393	P 2,421,287,859	P 71,335,893	P -	P 2,652,650,146
Guaranteed interest rates	2.0%	0.5%	4.50%	-	-
2021					
Assets					
Cash and cash equivalents	P 23,986,851	P 710,262,767	P 217,936,671	P 3,125,104	P 955,311,393
Financial assets at FVPL	249,167,268	1,947,714,166	180,267,780	-	2,377,149,214
Loans and other receivables	-	206,627,672	602,769,666	-	809,397,338
Accrued income	2,405,681	11,562,321	837,401	400	14,805,803
Total	P 275,559,800	P 2,876,166,926	P 1,001,811,518	P 3,125,504	P 4,156,663,748
Liabilities					
Insurance contract liabilities	P 177,469,368	P 2,717,578,865	P 813,076,356	P -	P 3,708,124,589
Accounts payable and accrued expenses	687,653	24,140,754	47,931,248	38,121	72,797,776
Total	P 178,157,021	P 2,741,719,619	P 861,007,604	P 38,121	P 3,780,922,365
Guaranteed interest rates	2.0%	0.5%	4.50%	-	-

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	Asian Multi Asset Bond Fund	Global Consumer Trend Inv Fund	Total
2022								
Assets								
Cash and cash equivalents	P 80,258,977	P 43,092,597	P 11,233,660	P 309,119,517	P 12,515,040	P 19,800	P 19,800	P 456,289,391
Financial assets at FVPL	-	139,798,163	460,712,871	1,794,583,747	180,496,939	-	-	2,575,591,720
Loans and other receivables	-	3,318,753	3,409,796	54,815,940	20,951	-	-	61,565,440
Accrued Income	-	1,634,117	793,645	17,225,790	2,522,721	980,800	980,800	24,137,873
	<u>P 80,258,977</u>	<u>P 187,843,630</u>	<u>P 476,149,972</u>	<u>P 2,175,744,994</u>	<u>P 195,585,651</u>	<u>P 1,000,600</u>	<u>P 1,000,600</u>	<u>P 3,117,584,424</u>
Liabilities								
Insurance contract liabilities	P 4,251,049	P 179,978,846	P 466,985,647	P 2,164,642,627	P 189,540,437	P -	P -	P 3,005,398,606
Accounts payable and accrued expenses	2,493,397	308,245	1,074,573	4,217,137	94,186	-	-	8,187,538
	<u>P 6,744,446</u>	<u>P 180,287,091</u>	<u>P 468,060,220</u>	<u>P 2,168,859,764</u>	<u>P 189,634,623</u>	<u>P 1,000,600</u>	<u>P 1,000,600</u>	<u>P 3,015,587,344</u>
NAV	<u>1,2846</u>	<u>1,3517</u>	<u>1,6126</u>	<u>1,7398</u>	<u>1,1809</u>	<u>-</u>	<u>-</u>	
2021								
Assets								
Cash and cash equivalents	P 20,808,102	P 32,525,979	P 20,434,918	P 587,955,671	P 24,830,102	P -	P -	P 686,554,772
Financial assets at FVPL	63,316,661	144,021,507	405,987,664	1,175,582,508	154,491,285	-	-	1,943,399,625
Loans and other receivables	-	1,658,391	7,299,997	19,333,033	-	-	-	28,291,421
Accrued Income	344,315	1,260,021	455,234	10,047,008	2,037,967	-	-	14,144,545
	<u>P 84,469,078</u>	<u>P 179,465,898</u>	<u>P 434,177,813</u>	<u>P 1,792,918,220</u>	<u>P 181,359,354</u>	<u>P -</u>	<u>P -</u>	<u>P 2,672,390,363</u>
Liabilities								
Insurance contract liabilities	P 81,876,806	P 171,208,468	P 424,611,420	P 1,782,940,986	P 175,292,637	P -	P -	P 2,635,930,317
Accounts payable and accrued expenses	1,320,904	749,831	5,225,695	2,255,735	175,936	-	-	9,728,101
	<u>P 83,197,710</u>	<u>P 171,958,299</u>	<u>P 429,837,115</u>	<u>P 1,785,196,721</u>	<u>P 175,468,573</u>	<u>P -</u>	<u>P -</u>	<u>P 2,645,658,418</u>
NAV	<u>1,2823</u>	<u>1,5572</u>	<u>1,7437</u>	<u>1,8013</u>	<u>1,2163</u>	<u>-</u>	<u>-</u>	

COCOLIFE Global Consumer Trends Investment Fund

This is a unitized variable life insurance investment fund based on ATRAM Global Consumer Trends Feeder Fund. This fund seeks to achieve long-term capital growth by investing all or substantially all of its assets in a collective investment scheme that invests globally in equities of companies that are predominantly engaged in the design, production or distribution of products and services related to the discretionary consumer needs of individuals.

This fund shall invest up to 100% of its total assets to its Target Fund – ATRAM Global Consumer Trends Feeder Fund and to maintain its liquidity, the fund may invest in liquid/semi-liquid assets such as:

- i. Treasury notes or bills, Certificate of Indebtedness issued by the Bangko Sentral ng Pilipinas which are short term and other government securities or bonds and other evidences of indebtedness or obligation, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or any of its instrumentalities.
- ii. Savings or time deposits with government-owned banks or commercial banks, provided that in no such case any such savings or time deposit accounts be accepted or allowed under a “bearer”, “numbered” account or other similar arrangement.

COCOLIFE Asian Multi-Asset Income Investment Fund

This is a unitized variable life insurance investment fund based on ATRAM Asian Multi-Asset Income Feeder Fund. This fund seeks to achieve capital growth and income over the medium to longer term by investing all or substantially all its assets in a collective investment scheme that invests primarily in Asian fixed income securities and Asian equities (including real estate investment trusts).

This fund shall invest up to 100% of its total assets to its Target Fund – ATRAM Global Consumer Trends Feeder Fund and to maintain its liquidity, the fund may invest in liquid/semi-liquid assets such as:

- i. Treasury notes or bills, Certificate of Indebtedness issued by the Bangko Sentral ng Pilipinas which are short term and other government securities or bonds and other evidences of indebtedness or obligation, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or any of its instrumentalities.
- ii. Savings or time deposits with government-owned banks or commercial banks, provided that in no such case any such savings or time deposit accounts be accepted or allowed under a “bearer”, “numbered” account or other similar arrangement.

37. 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.

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

	2022			2021		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Assets:						
Cash and cash equivalents	P 1,398,598,742	P -	P 1,398,598,742	P 2,566,395,355	P -	P 2,566,395,355
Insurance receivables - net	701,939,546	-	701,939,546	762,149,417	-	762,149,417
Financial assets at FVPL	4,194,907,415	-	4,194,907,415	5,139,567,919	-	5,139,567,919
AFS financial assets	422,718,089	8,703,531,820	9,126,249,909	1,503,273,805	7,074,698,046	8,577,971,851
Loans and other receivables - net	1,298,148,587	2,556,609,184	3,854,757,771	1,258,114,994	3,480,007,866	4,738,122,860
Accrued income - net	135,074,729	-	135,074,729	101,235,541	-	101,235,541
Reinsurance assets	103,033,674	-	103,033,674	45,149,853	-	45,149,853
Investments in subsidiaries	-	1,739,480,791	1,739,480,791	-	1,335,460,614	1,335,460,614
Real estate inventories	5,726,136	-	5,726,136	11,248,136	-	11,248,136
Property and equipment - net	-	248,507,330	248,507,330	-	214,447,698	214,447,698
Investment properties - net	-	983,401,160	983,401,160	-	888,429,238	888,429,238
Intangible assets - net	-	122,994,471	122,994,471	-	100,243,119	100,243,119
Deferred tax assets - net	-	179,533,150	179,533,150	-	188,290,251	188,290,251
Right-of-use assets - net	-	80,982,507	80,982,507	-	25,797,923	25,797,923
Other assets - net	578,944,916	-	578,944,916	528,598,252	-	528,598,252
Total Assets	<u>P 8,839,091,834</u>	<u>P 14,615,040,413</u>	<u>P 23,454,132,247</u>	<u>P 11,915,733,272</u>	<u>P 13,307,374,755</u>	<u>P 25,223,108,027</u>

	2022			2021		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Liabilities:						
Insurance contract liabilities	P 1,249,323,461	P14,267,731,873	P15,517,055,334	P 1,870,371,575	P15,919,762,593	P17,790,134,168
Reserves for policy holder's dividends	236,815,967	-	236,815,967	225,878,023	-	225,878,023
Premium deposit funds	578,431,573	-	578,431,573	862,209,504	-	862,209,504
Insurance payables	86,986,719	-	86,986,719	57,384,124	-	57,384,124
Accounts payable and accrued expenses	1,207,872,321	-	1,207,872,321	1,538,271,027	-	1,538,271,027
Lease liabilities	27,458,296	59,405,382	86,863,678	16,407,900	15,135,292	31,543,192
Net pension liabilities	-	6,272,545	6,272,545	-	98,500,408	98,500,408
Other liabilities	19,478,364	28,044,803	47,523,167	43,666,692	108,458,311	152,125,003
Total Liabilities	<u>P 3,406,366,701</u>	<u>P14,361,454,603</u>	<u>P17,767,821,304</u>	<u>P 4,614,188,845</u>	<u>P16,141,856,604</u>	<u>P20,756,045,449</u>

39. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding pages is the supplementary information which is required by the BIR under Revenue Regulations (RR) No. 15-2010 to be disclosed as part of the notes to the financial statements. This supplementary information is not a required disclosure under PFRS.

(a) *Output VAT*

In 2022, the Company declared output VAT amounting to P83,402,427 which relates to its vatable sales amounting to P695,020,229. The Company has no exempt or zero-rated sales during the year.

(b) *Input VAT*

The Company's input VAT during the year amounting to P4,983 solely relates to services lodged under Other Current Assets account in the 2022 statement of financial position. The total input VAT was applied against the output VAT declared during the year.

(c) *Taxes on Importation*

The Company did not pay or accrue any landed costs, customs duties and tariff fees as it did not have any importation for the year ended December 31, 2022.

(d) *Excise Tax*

The Company did not have any transactions in 2022, which are subject to excise tax.

(e) *Documentary Stamp Tax*

Documentary stamp taxes (DST) paid and accrued in 2022 are presented below.

On loan instruments	P 6,713,918
On policies issued	662,590
On others	<u>2,575,470</u>
	<u>P 9,951,978</u>

The total amount of DST paid and recognized as part of Taxes and Licenses account in the 2022 statement of comprehensive income is P156,976 [see Item (f)]. On the other hand, the amount of P9,951,978 refers to the DST borne by other parties but remitted by the Company. Pursuant to RR 09-00, the Company shall be responsible for the remittance of the DST due to the BIR regardless of who paid the DST.

(f) *All Other Taxes (Local and National)*

Other taxes paid in 2022 recognized under Taxes and licenses account under General and Administrative Expenses are as follows:

License and permit fees	P 14,472,857
Real estate taxes	2,999,327
DST	156,976
Others	<u>10,016,189</u>
	<u>P 27,645,349</u>

(g) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2022 are shown below.

Expanded	P 249,636,947
Compensation and benefits	<u>59,016,878</u>
	<u>P 308,653,825</u>

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

(h) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2022, 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 taxable years.