Manulife China Bank Life Assurance Corporation

Financial Statements
December 31, 2021 and 2020

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manulife China Bank Life Assurance Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Manulife China Bank Life Assurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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Report on the Supplementary Information Required Under Revenue Regulations 15-2010
Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Manulife China Bank Life Assurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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

May 23, 2022

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2021	2020
ASSETS		
Cash and Cash Equivalents (Notes 4 and 26)	**₱2,099,163,215**	₱2,365,338,667
Insurance Receivables (Note 23)	**15,543,609**	7,812,751
Financial Assets (Notes 5 and 26)		
Financial assets at fair value through profit or loss (FVPL)	**51,257,447,715**	39,032,175,594
Available-for-sale financial assets	**2,557,760,579**	2,387,507,350
Loans and receivables	**227,881,194**	219,740,429
Accrued Income (Notes 7 and 26)	**26,514,501**	20,081,469
Reinsurance Assets (Notes 11 and 15)	**5,336,318,528**	5,739,801,016
Property and Equipment (Note 8)	**27,549,407**	27,464,418
Right-of-use Asset (Note 22)	**6,295,721**	9,201,439
Deferred Tax Assets (Note 21)	**48,686,324**	115,920,579
Other Assets (Note 9)	**33,088,595**	47,891,150
	₱61,636,249,388	₱49,972,934,862
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 10, 11 and 26)	**₱56,935,764,786**	₱45,146,356,676
Insurance payables (Notes 11 and 15)	**1,275,947,416**	1,229,717,395
Policyholders' dividends (Note 23)	**307,139,656**	272,417,177
Accounts payable and accrued expenses (Notes 12 and 26)	**656,259,713**	870,511,196
Due to related parties (Note 15)	**409,312,547**	150,512,300
Income tax payable	**316,485**	68,141,284
Lease liability (Note 22)	**8,201,189**	11,336,196
Total Liabilities	**₱59,592,941,792**	₱47,748,992,224
Equity		
Capital stock (Notes 13 and 24)	**₱500,000,000**	₱500,000,000
Additional paid-in capital (Note 13)	**525,000,000**	525,000,000
Contingency surplus (Note 14)	**-**	100,000,000
Remeasurement loss on legal policy reserves (Note 10)	**(12,237,466)**	(167,767,250)
Remeasurement gain (loss) on pension plan (Note 20)	**5,229,930**	(3,568,559)
Reserve for fluctuation in value of available-for-sale financial assets (Note 5)	**(35,535,179)**	217,888,251
Appropriated surplus - Negative reserves (Note 2)	**156,828,253**	81,123,394
Retained earnings	**904,022,058**	971,266,802
Total Equity	**2,043,307,596**	2,223,942,638
	₱61,636,249,388	₱49,972,934,862

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2021	2020
REVENUES		
Gross premiums earned on insurance contracts	**₱16,566,132,003**	₱9,350,336,055
Reinsurers' share of gross premiums earned on insurance contracts	**(350,527,646)**	(349,055,172)
Net insurance premiums earned (Note 16)	**16,215,604,357**	9,001,280,883
Investment income (Note 17)	**117,081,939**	120,086,219
Fair value gain (loss) on financial assets at FVPL (Note 5)	**(707,403)**	248,421
Gain on sale of available-for-sale financial assets (Note 5)	**-**	5,046,158
Foreign currency exchange gains (losses) - net	**39,157,052**	(37,667,758)
Other income (Note 17)	**1,572,680,428**	1,418,612,149
Total revenues	**17,943,816,373**	10,507,606,072
BENEFITS AND OPERATING EXPENSES		
Gross benefits and claims incurred on insurance contracts (Note 18)	**685,903,270**	139,985,988
Reinsurers' share of benefits and claims incurred on insurance contracts (Note 18)	**(89,298,421)**	(44,468,145)
Gross change in legal policy reserves (Note 18)	**15,547,988,473**	8,572,273,082
Reinsurer's share of gross change in legal policy reserves (Note 18)	**168,996,864**	83,432,140
Dividends to policyholders	**54,288,463**	52,050,712
Net insurance benefits and claims	**16,367,878,649**	8,803,273,777
General and administrative expenses (Note 19)	**1,022,660,855**	821,707,075
Commission expenses (Note 15)	**499,559,982**	323,066,417
Insurance and other taxes	**30,223,065**	29,510,304
Total benefits and operating expenses	**17,920,322,551**	9,977,557,573
INCOME FROM OPERATIONS	**23,493,822**	530,048,499
Interest expense on lease liability (Note 22)	**615,422**	1,773,027
INCOME BEFORE INCOME TAX	**22,878,400**	528,275,472
PROVISION FOR INCOME TAX (Note 21)	**14,418,285**	150,520,904
NET INCOME	**₱8,460,115**	₱377,754,568

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2021	2020
NET INCOME	**₱8,460,115**	₱377,754,568
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified to profit or loss in subsequent periods:		
Net change in fair value of available-for-sale financial assets (Note 5)	**(253,423,430)**	263,127,472
Remeasurement gain (loss) on legal policy reserves, net of tax (Note 10)	**155,529,784**	(159,017,460)
Item that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on pension plan (Note 20)	**8,798,489**	(8,113,746)
	(89,095,157)	95,996,266
TOTAL COMPREHENSIVE INCOME	**(₱80,635,042)**	₱473,750,834

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Capital Stock (Notes 13 and 23)	Contributed Surplus (Note 13)	Contingency Surplus (Note 14)	Remeasurement Loss on Legal Policy Reserves (Note 10)	Remeasurement Gain (Loss) on Pension Plan (Note 20)	Reserve for Fluctuation in Value of Available-for-sale Financial Assets (Note 5)	Appropriated Surplus - Negative Reserves (Note 2)	Retained Earnings	Total
Balances at January 1, 2021	**₱500,000,000**	**₱525,000,000**	**₱100,000,000**	**(₱167,767,250)**	**(₱3,568,559)**	**₱217,888,251**	**₱81,123,394**	**₱971,266,802**	**₱2,223,942,638**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,460,115**	**8,460,115**
Other comprehensive income (loss)	**–**	**–**	**–**	**155,529,784**	**8,798,489**	**(253,423,430)**	**–**	**–**	**(89,095,157)**
Total comprehensive income (loss)	**–**	**–**	**–**	**155,529,784**	**8,798,489**	**(253,423,430)**	**-**	**8,460,115**	**(80,635,042)**
Appropriation of negative policy reserves	**–**	**–**	**–**	**–**	**–**	**–**	**75,704,859**	**(75,704,859)**	**–**
Capital withdrawal	**–**	**–**	**(100,000,000)**	**–**	**–**	**–**	**–**	**–**	**(100,000,000)**
Balances at December 31, 2021	**₱500,000,000**	**₱525,000,000**	**-**	**(₱12,237,466)**	**₱5,229,930**	**(₱35,535,179)**	**₱156,828,253**	**₱904,022,058**	**₱2,043,307,596**
Balances at January 1, 2020	₱500,000,000	₱525,000,000	₱100,000,000	(₱8,749,790)	₱4,545,187	(₱45,239,221)	₱44,828,315	₱629,807,313	₱1,750,191,804
Net income	–	–	–	–	–	–	–	377,754,568	377,754,568
Other comprehensive income (loss)	–	–	–	(159,017,460)	(8,113,746)	263,127,472	–	–	95,996,266
Total comprehensive income (loss)	–	–	–	(159,017,460)	(8,113,746)	263,127,472	–	377,754,568	473,750,834
Appropriation of negative policy reserves	–	–	–	–	–	–	36,295,079	(36,295,079)	–
Balances at December 31, 2020	₱500,000,000	₱525,000,000	₱100,000,000	(₱167,767,250)	(₱3,568,559)	₱217,888,251	₱81,123,394	₱971,266,802	₱2,223,942,638

See accompanying Notes to Financial Statements.

MANULIFE CHINA BANK LIFE ASSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱22,878,400**	₱528,275,472
Adjustments for:		
Change in legal policy reserves (Note 10)	**155,336,972**	389,926,982
Change in IBNR provision (Note 10)	**46,384,821**	2,321,920
Depreciation and amortization (Note 19)	**12,842,511**	16,173,197
Retirement costs (Note 20)	**11,916,607**	10,159,841
Fair value loss (gain) on financial assets at fair value through profit or loss (Note 5)	**707,403**	(248,421)
Interest expense on lease liability (Note 22)	**615,422**	1,773,027
Provision for impairment loss on other assets (Note 9)	**244,572**	–
Interest income (Note 17)	**(117,081,939)**	(120,086,219)
Unrealized foreign currency exchange losses - net	**(18,275,933)**	29,092,175
Gain on sale of available-for-sale financial assets (Note 5)	**–**	(5,046,158)
Operating income before changes in working capital	**115,568,836**	852,341,816
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Reinsurance assets	**403,482,488**	(541,931,411)
Other assets	**22,386,354**	(6,849,983)
Financial assets at fair value through profit or loss (Note 5)	**(12,225,979,524)**	(5,041,102,386)
Loans and receivables	**(8,140,765)**	210,292,170
Insurance receivables	**(7,730,858)**	(971,380)
Increase (decrease) in:		
Insurance contract liabilities (Note 10)	**11,616,754,284**	4,526,981,737
Due to related parties	**258,800,247**	(58,921,759)
Policy and contract claims payable (Note 10)	**194,282,912**	130,582,038
Insurance payables	**46,230,021**	(110,824,530)
Policyholders' dividends	**34,722,479**	36,376,560
Accounts payable and accrued expenses	**(214,251,483)**	493,392,197
Net cash generated by operations	**236,124,991**	489,365,069
Income taxes paid (including creditable withholding taxes)	**(85,762,753)**	(157,977,795)
Contribution to retirement fund (Note 20)	**(8,013,659)**	(7,313,897)
Interest paid (Note 22)	**(615,422)**	(1,773,027)
Net cash provided by operating activities	**141,733,157**	322,300,350
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**124,538,123**	216,170,670
Proceeds from sale/maturities of available-for-sale financial assets (Note 5)	**–**	129,992,548
Proceeds from disposal of property and equipment	**1,883,196**	–
Acquisitions of:		
Available-for-sale financial assets (Note 5)	**(437,565,875)**	(279,847,589)
Property and equipment (Note 8)	**(11,904,979)**	(9,915,650)
Net cash used in investing activities	**(323,049,535)**	56,399,979

(Forward)

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of principal portion of lease liability (Note 22)	**(3,135,007)**	(₱3,676,678)
Return of capital (Note 14)	**(100,000,000)**	–
Net cash used in financing activities	**(103,135,007)**	(3,676,678)
EFFECT OF FOREIGN CURRENCY RATE CHANGES ON CASH AND CASH EQUIVALENTS	**18,275,933**	(29,092,175)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(266,175,452)**	345,931,476
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,365,338,667**	2,019,407,191
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,099,163,215**	₱2,365,338,667

See accompanying Notes to Financial Statements.

1. Corporate Information

Manulife China Bank Life Assurance Corporation (formerly The Pramerica Life Insurance Company, Inc.) (the Company) was incorporated and registered with the Securities and Exchange Commission (SEC) on February 20, 1998 and December 8, 1998, respectively. The Company received its Certificate of Authority from the Insurance Commission of the Philippines (IC) in the same year.

On May 12, 2006, The Manufacturers Life Insurance Company of Canada (Manulife Canada), a corporation established and existing under the laws of Canada, acquired the entire shareholdings of the Company, a then wholly-owned subsidiary of Prudential International Insurance Holdings, Ltd. (PII), a company based in New Jersey, USA. PII is in turn a wholly-owned subsidiary of Prudential Financial, Inc. (PFI), a company based in Newark, New Jersey, USA. As a result of this transaction, the Company became a wholly-owned subsidiary of Manulife Canada and its ultimate parent became Manulife Financial Corporation (MFC).

On January 5, 2007, a Bancassurance Alliance Agreement (the Agreement) was made and entered by and between Manulife Canada and China Banking Corporation (the Bank), a corporation duly organized under Philippine laws and registered with the SEC. The parties agreed to enter into a 15-year exclusive bancassurance alliance to distribute life insurance products to the Bank's customers, and the Bank has undertaken not to distribute, market or endorse the products of any other life insurance company during the term of the 15-year exclusive bancassurance alliance.

On March 5, 2007, in a special meeting of the Company's Board of Directors (BOD), majority of the members of the BOD approved the change in name of the Company from The Pramerica Life Insurance Company, Inc. to Manulife China Bank Life Assurance Corporation. The SEC approved the Company's application for the change in name on March 23, 2007.

On August 8, 2007, the Bank acquired 5% of the Company's capital stock, equivalent to 125,000 common shares.

On December 3, 2008, The Manufacturers Life Insurance Co. (Phils.), Inc. (Manulife Philippines or the Parent Company), a subsidiary of MFC, purchased the 95% of the Company's capital stock from Manulife Canada.

On September 12, 2014, based on the Share Purchase Agreement and the Deed of Absolute Sale of Shares of Stock and Transfer of Contributed Surplus entered into between Manulife Philippines and the Bank, Manulife Philippines sold 1,750,000 Common Shares representing thirty five percent (35%) of the total issued shares of the Company to the Bank. The Bank after the sale now has forty (40%) stake in the Company. The Bank and Manulife Philippines have contemporaneously entered into the Bancassurance Agreement and the Addendum to Administrative Services Agreement.

The Bancassurance Agreement is an amendment of the Bancassurance Alliance Agreement in 2007, which set out the initial terms of cooperation between the Bank and the Company in connection with their promotion and sale of life insurance products for an initial term of 15 years. The term of the new agreement shall be for ten (10) years commencing from July 1, 2014 during which time Manulife Philippines shall, in exchange for an increased equity stake in the Company and other valuable consideration given to the Bank by the Company, have exclusive access to the Distribution Network and Bank Customers for the duration of the new term.

Manulife Philippines administers the Company's operations as provided by the Administrative Services Agreement. The Addendum to Administrative Services Agreement prescribes the amendment of the basis of the services fees charged by Manulife Philippines to the Company.

The registered office of the Company, which is also its principal place of business, is located at the 10th Floor, NEX Tower, 6786 Ayala Avenue, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD on May 23, 2022.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value.

The financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency.

Statement of Compliance

The financial statements which are prepared for submission to the SEC and the Bureau of Internal Revenue (BIR) have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards that became effective in 2021. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Company.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

  The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
  - There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Company shall also disclose information about:

  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

Deferral of the Adoption of PFRS 9, Financial Instruments
The Company applies the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*. The temporary exemption permits the Company to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before 1 January 2023.

The assessment on whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity's total liabilities.

The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting date after March 31, 2015 and before April 1, 2016. Applying the requirements, the Company performed the predominance assessment using the statement of financial position as of December 31, 2015. The Company concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As of December 31, 2015, the Company's gross liabilities arising from contracts within the scope of PFRS 4 represented 98% of the total carrying amount of all its liabilities. Since December 31, 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

Fair value disclosures
The table below presents an analysis of the fair value of classes of financial assets of the Company as of December 31, 2021 and 2020, as well as the corresponding change in fair value for the years then ended. The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and

- All other financial assets (i.e., those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis).

	2021			
	SPPI financial assets		**Other financial assets**	
	Fair value	**Fair value change**	**Fair value**	**Fair value change**
AFS financial assets				
Debt securities:				
Government bonds	**₱2,503,668,014**	**(₱253,033,285)**	**₱–**	**₱–**
Corporate bonds	**44,092,565**	**(390,145)**	**–**	**–**
UITFs	**10,000,000**	**–**		
Financial assets designated at FVPL*				
Debt securities				
Government bonds	**–**	**–**	**7,656,521,935**	**(191,362,336)**
Corporate bonds	**–**	**–**	**278,974,320**	**(845,230)**
Unit trust investment funds (UITFs)	**–**	**–**	**8,820,326,941**	**445,337,851**
Equity securities				
Common stock	**–**	**–**	**17,079,889,380**	**418,764,754**
Other equity securities	**–**	**–**	**14,719,337,538**	**545,360,039**
Loans and receivables				
Policy loans	**117,640,251**	**–**	**–**	**–**
Management fee receivable	**87,797,861**	**–**	**–**	**–**
Security fund contribution	**141,244**			
Due from related parties	**1,306,386**	**–**	**–**	**–**
Other receivables	**20,995,452**	**–**	**–**	**–**
	₱2,785,641,773	**(₱253,423,430)**	**₱48,555,050,114**	**₱1,217,255,078**

**The fair value changes on financial assets designated at FVPL that are attributable to the unit-linked holders are recognized as part of "Due to unit-linked holders" (see Note 10). The fair value changes attributable to the seed capital is recognized in the Parent Company statements of income as "Fair value gain (loss) on financial assets at FVPL."*

	2020			
	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
AFS financial assets				
Debt securities:				
Government bonds	₱2,343,135,674	₱261,069,523	₱–	₱–
Corporate bonds	44,371,676	2,057,949	–	–
Financial assets designated at FVPL*				
Debt securities				
Government bonds	–	–	7,826,593,179	219,460,556
Corporate bonds	–	–	534,789,824	10,692,827
Unit trust investment funds (UITFs)	–	–	4,925,972,955	127,942,084
Equity securities				
Common stock	–	–	15,705,611,011	(85,239,277)
Other equity securities	–	–	8,904,405,666	693,735,586
Loans and receivables				
Policy loans	120,777,574	–	–	–
Management fee receivable	69,204,448	–	–	–
Due from related parties	1,307,871	–	–	–
Security fund contribution	141,244	–	–	–
Other receivables	28,309,292	–	–	–
	₱2,607,247,779	₱263,127,472	₱37,897,372,635	₱966,591,776

**The fair value changes on financial assets designated at FVPL that are attributable to the unit-linked holders are recognized as part of "Due to unit-linked holders" (see Note 10). The fair value changes attributable to the seed capital is recognized in the Parent Company statements of income as "Fair value gain (loss) on financial assets at FVPL."*

Credit risk disclosures
The following table shows the carrying amounts of the SPPI assets in accordance with PAS 39 categories by credit risk rating grades reported to key management personnel. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss.

	2021			
	Credit Rating			
	Total	**BBB**	**BB/B**	**Unrated**
AFS financial assets				
Debt securities:				
Government bonds	**₱2,503,668,014**	**₱2,503,668,014**	**₱–**	**₱–**
Corporate bonds	**44,092,565**	**44,092,565**	**–**	**–**
UITFs	**10,000,000**	**10,000,000**	**–**	**–**
Loans and receivables				
Policy loans	**117,640,251**	**–**	**–**	**117,640,251**
Management Fee receivables	**87,797,861**	**–**	**–**	**87,797,861**
Due from related parties	**1,306,386**	**–**	**–**	**1,306,386**
Security fund contribution	**141,244**	**–**	**–**	**141,244**
Other receivables	**20,995,452**	**–**	**–**	**20,995,452**
	₱2,785,641,773	**₱2,557,760,579**	**–**	**₱227,881,194**

	2020			
	Credit Rating			
	Total	BBB	BB/B	Unrated
AFS financial assets				
Debt securities:				
Government bonds	₱2,343,135,674	₱2,343,135,674	₱–	₱–
Corporate bonds	44,371,676	44,371,676	–	–
Loans and receivables				
Policy loans	120,777,574	–	–	120,777,574
Management Fee receivables	69,204,448			69,204,448
Due from related parties	1,307,871	–	–	1,307,871
Security fund contribution	141,244	–	–	141,244
Other receivables	28,309,292	–	–	28,309,292
	₱2,607,247,779	₱2,387,507,350	₱–	₱219,740,429

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements.

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

Effective beginning on or after January 1, 2023
- Amendment to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

Effective beginning on or after January 1, 2024
- Amendment to PAS 1, *Clarification of Liabilities as Current or Non-current*

Effective beginning on or after January 1, 2025
- PFRS 17, *Insurance Contracts*

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

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

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

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB. Early application is permitted. The Company is currently assessing the impact of adopting PFRS 17.

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

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments*, *Interest Rate Benchmark Reform*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to PFRS 16, *COVID-19-related Rent Concessions.*

<u>Product Classification</u>
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 by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variable. Investment contracts mainly transfer significant financial risk but can also transfer insignificant insurance risk.

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 this period, unless all rights and obligations are extinguished or have 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 or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and/or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the Company, fund or other entity that issues the contract.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF or when the host insurance contract and/or investment contract with DPF itself is measured at FVPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated subsequently. 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 IIFs meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of change in value.

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 are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Insurance receivables are derecognized when the derecognition criteria for financial assets have been met.

Financial Instruments

Date of Recognition
The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial Recognition of Financial Instruments
Financial instruments are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments classified as at FVPL. Any difference noted between the fair value and the transaction price on initial recognition is treated as expense or income, unless it qualifies for recognition as some type of asset or liability at the time of the transaction.

The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments at FVPL
Financial assets and financial liabilities at FVPL include those assets and liabilities held-for-trading purposes or those designated by management at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets and financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities may be designated at FVPL when the following criteria are met:

(a) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities recognizing gains or losses on them on a different basis;

(b) The assets or 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 strategy; or

(c) 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 separately recorded.

Subsequent to initial recognition, these instruments are re-measured at fair value. Fair value gains and losses are recognized in the statement of income under the 'Fair value gain (loss) on financial assets at FVPL' account. Interest earned on debt instruments is reported as interest income under 'Investment income' in the statements of income.

The Company's financial assets at FVPL consist of debt and equity securities of the IIFs.

The Company's quoted debt and equity securities under the IIFs set up by the Company underlying the unit-linked insurance contracts are designated as at FVPL in accordance with the investment strategy and valuation provisions of the unit-linked policy contracts. Likewise, this is consistent with the valuation basis of the reserve for variable units held by policyholders.

As of December 31, 2021 and 2020, the Company has no financial liabilities classified as at FVPL.

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 are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, nor designated as AFS or at FVPL. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2021 and 2020, the Company's loans and receivables represent insurance receivables, accrued income, inter-fund receivables, policy loans, accounts receivable held in IIFs, due from related parties, security fund contribution and other receivables.

AFS Financial Assets
AFS financial assets are non-derivative financial assets that are either designated in this category or do not qualify to be classified as loans and receivables, HTM investments or financial assets at FVPL. After initial measurement, AFS financial assets are subsequently measured at fair value.
The effective yield component of AFS debt securities, as well as the impact of the restatement on foreign currency-denominated AFS debt securities, is recognized in the statement of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of income as investment income when the right of the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets, including the impact of foreign exchange differences on AFS equity securities, are reported in other comprehensive income. The losses arising from impairment of such investments are recognized as provision for impairment and credit losses in the statement of income. On derecognition or impairment, the cumulative gain or loss previously reported in other comprehensive income is transferred to the statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

The Company's AFS financial assets consists of peso-denominated government and corporate debt securities.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income. Other financial liabilities include the Company's insurance payables, policyholders' dividends, due to related parties, accounts payable and accrued expenses.

Classification of Financial Instruments between Debt and Equity
A financial instrument is classified as debt if it has a contractual obligation to:

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

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Impairment of Financial Assets
The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Allowance for impairment losses' account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type and past due status.

AFS financial assets carried at fair value
In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income) is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity instruments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Investment income" in the statement of income. If, in a subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Derecognition of Financial Instruments

Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

Where the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liability
A financial liability is derecognized when the obligation under the liability expired, is discharged or cancelled. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an

exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Policy Loans
Policy loans, included in loans and receivables, are carried at their unpaid balances plus accrued interest and are secured by the cash surrender values and dividends on which the loans are made. Policy loans are accounted for based on the accounting policy for loans and receivables.

Reinsurance Assets
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the related reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance assets are impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in its statement of income. The Company gathers the objective evidence that the reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is calculated following the same method used for these financial assets.

In modified coinsurance (quota share) treaties, the Company records as reinsurance premiums the reinsurer's proportionate share in benefits reinsured for the covered policies. Reinsurance allowances due from the reinsurers, on the other hand, are recorded under "Other income" (see Note 17).

Property and Equipment
Property and equipment are carried at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are charged to the statement of income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization is calculated on a straight-line method over the estimated useful lives (EUL) of the property and equipment.

	Years
Electronic Data Processing (EDP) equipment	3
Leasehold improvements	5
Furniture and fixtures	5
Transportation equipment	5

Leasehold improvements are amortized over the term of the lease or the EUL of the improvements, whichever is shorter.

The assets' useful lives and depreciation and amortization methods are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits for each item of property and equipment.

An item of property and equipment 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 the statement of income in the year the item is derecognized.

Creditable withholding tax
Creditable withholding tax pertains to the indirect tax paid by the Company that is withheld by suppliers, service providers and clients of the Company for purchase of goods or services. These CWTs are initially recorded at cost as an asset under "Other assets" account.

At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of these CWTs.

Pension Asset
The Company maintains a defined contribution (DC) plan that covers all regular full-time employees. Under its DC plan, the Company pays fixed contributions based on the employees' monthly salaries. The Company, however, is covered by Republic Act (RA) No. 7641, The Philippine Retirement Law, which provides for its qualified employees a defined benefit (DB) minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA 7641.

Accordingly, the Company accounts for its retirement obligation under the higher of the DB obligation relating to the minimum guarantee and the obligation arising from the DC plan.

For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting period. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net DB liability (asset) for the period by applying the discount rate used to measure the DB obligation at the beginning of the annual period to the then net DB liability (asset), taking into account any changes in the net DB liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.
The DC liability, on the other hand, is measured at the fair value of the DC assets upon which the DC benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the DC benefits.

Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

Impairment of Nonfinancial Assets
The carrying values of the Company's nonfinancial assets (e.g., property and equipment and right-of-use assets) are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the statement of income.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense 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.

Insurance Contract Liabilities

Life insurance liabilities
Life insurance contact liabilities are recognized when the contracts are entered into and the premiums are recognized. The provision for life insurance contracts is calculated on the basis of a stringent prospective actuarial valuation method where the assumptions used depend on the Company's current experience. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by the Insurance Commission.

Subsequently, new estimates are developed at each reporting date to determine whether the liabilities reflect the current experience. The initial assumptions can be retained if the Company deems the current assumptions to still be reflective of their experience. Improvements and significant deteriorations in estimates have an impact on the value of the liabilities.

Movements in legal policy reserves attributable to changes in discount rate are recorded under 'Remeasurement gain (loss) on legal policy reserves' in other comprehensive income and the changes in policies and assumptions are recorded under 'Gross change in legal policy reserves' in the statement of income.

Life insurance contracts with fixed and guaranteed terms
Premiums are recognized as revenue when they become due from the policyholders which for single premium business, is the date on which the policy becomes effective. Benefits are recorded as an expense when they are incurred and are accrued as a liability.

An increase in liability for contractual benefits that are expected to be incurred in the future is recorded under 'Gross change in legal policy reserves' in the statement of income when the premiums are recognized. The liability is determined as the sum of the present value of future benefits and expenses, less the present value of the future gross premiums arising from the policy contract discounted at the appropriate risk-free discount rate.

The expected future cash flows is determined using the best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

The liability is based on actuarial assumptions such as mortality and morbidity, maintenance expenses, and lapse and/or persistency rates that are established at the time the contract is issued. A margin for adverse deviation (MfAD) is also included in the assumptions. For group life insurance and accident and health insurance, reserves are computed by calculating the unearned portion of the written premiums for the year.

Provision is also made for the cost of claims incurred but not reported (IBNR) as of the reporting date based on the Company's experience. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in the statement of income in later years. Policy and contract claims payable forms part of the 'Insurance contract liabilities' in the statements of financial position.

Unit-linked insurance contracts
The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contract links payments to IIFs set-up by the Company with consideration received from the policyholders. As allowed by PFRS 4, the Company chose not to unbundle the investment portion of its unit-linked products. Premiums received (including premium load and bid-offer spread) from the issuance of unit-linked insurance contracts are recognized as premium revenue. Consideration received from policyholders that are transferred to the segregated funds is recognized as part of 'Gross change in legal policy reserves' in the statements of income.

The Company withdraws the cost of insurance and administrative charges from the consideration received from the policyholders in accordance with the provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in fund assets are equal to the surrender value of the unit-linked policies, and are withdrawable anytime.

The investment returns on the IIFs belong to policyholders and the Company does not bear the risk associated with these assets (outside of guarantees offered). Accordingly, investment income earned and expenses incurred by these funds and payments to policyholders have the same corresponding change in the reserve for unit-linked liabilities. Such changes have offsetting effect on the Company's results of operations and are therefore not separately presented in the statement of income. Management fee income earned by the Company for managing the IIFs and the monthly load and cost of insurance charges are included in other income.

IIFs primarily include investments in debt securities, equities, short-term investments and cash and cash equivalents. The methodology applied to determine the fair value of the investments held in these funds is consistent with that applied to investments held by general fund. Reserve for unit-linked liabilities is measured based on the value of the IIFs attributable to the policyholders.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Policy and contract claims payable
Policy and contract claims payable includes the sum of the individual amounts that are due and have already been approved for payment but have not actually been paid as of the end of the reporting period. This also includes accrual of reported claims that are not yet approved for payment. This is recognized when due and measured on initial recognition at fair value. Subsequent to initial recognition, this is measured at amortized cost using the effective interest rate method.

Discretionary Participation Feature
A discretionary participation feature (DPF) is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from the assets held in the specified fund. The supplementary discretionary returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the contract. The supplementary discretionary returns which were not withdrawn by the policyholders from the Company accumulated over time and are, recognized as part of "Policyholders' dividends" account in the statement of financial position. Policyholders' dividends are carried at amortized cost.

Insurance Payables
Insurance payables result from the reinsurance agreement entered into by the Company for ceding out its insurance business. The Company initially recognizes the liability at transaction price. After initial measurement, insurance payables are subsequently measured at amortized cost using the effective interest rate method.

Leases

Company as lessee
The Company assesses at contract inception whether a contract is, or contains a lease. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use (ROU) assets representing the right-of-use the underlying assets.

ROU assets
The Company recognizes ROU assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). ROU assets are measured at costs, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the EUL of the assets of four (4) years.

Lease liabilities
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest (included in 'Interest expense on lease liability') and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases of office spaces (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be of low value (i.e., those with value of less than ₱250,000). Lease payments on short-term leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to "Additional paid-in capital" account.

Direct cost incurred related to the equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings.

Appropriated surplus - Negative reserves
For any traditional life insurance policy, where the calculation based on gross premium valuation (GPV) results in a negative reserve, the Company appropriates from retained earnings an amount equal to the negative reserves calculated on a per policy basis as required by IC CL No. 2016-66.

Contingency surplus
Contingency surplus pertains to contributions from shareholders to address the Company's solvency and capital requirements.

Retained earnings
Retained earnings represent accumulated net income of the Company, net of dividends declared.

Revenue Recognition
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized for contracts within the scope of PFRS 15:

Management fee income
The Company's service arrangements are generally satisfied over time, with revenue recognized over the period in which the related services are performed.

Revenues outside the scope of PFRS 15

Insurance premiums
Gross recurring premiums from life insurance contracts are recognized when due. For single premium business, revenue is recognized on the date from which the policy becomes effective. For regular premium contracts, receivables are recorded at the date when payments are due.

Reinsurance allowances
Reinsurance allowances are recognized in the statement of income when the related ceded policy-related expenses such as commissions and other underwriting expenses are incurred.

Cost of insurance
Cost of insurance is recognized as revenue over the period in which the related services are performed.

Processing fee
The Company's service arrangements are generally satisfied over time, with revenue measured and collected from customers within a short term, as services are rendered.

Investment income
Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated using the effective interest rate.

Investment income also includes dividends, which are recognized when the Company's right to receive the payment is established.

Miscellaneous revenue
Insurance contract policyholders are charged for policy administration services, surrenders and other contract fees. These charges, comprising of cost of insurance and monthly load, are recognized as revenue over the period in which the related services are performed.

Benefits and Claims Recognition

Benefits and claims
Life insurance business claims reflect the cost of all claims arising during the year, including claims handling costs. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Benefits claims are recorded as liabilities.

For unpaid benefits, a provision is made for the estimated cost of all claims and dividends notified but not settled at the reporting date, net of reinsurance recoveries, using the information available at the time. Provision is also made for the cost of claims incurred but not reported (IBNR) until after the reporting date based on the Company's experience and historical data. These actual claims are those reported during the first quarter immediately following the reporting date, whether paid or unpaid, but wherein the date of loss occurred on or before the reporting date.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Dividend to policyholders
Dividend expense attributable to dividend entitlement of certain participating insurance policies is recognized as it accrues every policy anniversary date. Policyholders dividends can be paid in cash, buy paid up additions or can be left with the Company. Policyholder dividends which are not withdrawn from the Company earn interest, which is included in the statement of income as "Dividend to policyholders".

Expense Recognition
Expenses are recognized in the statement of income when incurred. These are recognized in the statement of income:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or

- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

General and administrative expenses
General and administrative expenses are costs attributable to administrative and other business activities of the Company.

Commission expenses
Commission expenses are charged against operations when incurred.

Foreign Currency-Denominated Transactions and Translations
Transactions in foreign currencies are initially recorded at the functional currency spot rate prevailing at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date.

All differences arising from monetary items are taken to the statement of income.

Nonmonetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of nonmonetary items measured at fair value is treated in line with the recognition of a gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

Income Tax

Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as of the reporting date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

Deferred tax assets are recognized for all deductible temporary differences, excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, excess MCIT over RCIT and unused NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

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

Events after Reporting Period

Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in the financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The Company makes judgments, estimates and assumptions that affect the reported amounts of assets and liabilities. 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.

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the company financial statements.

Product classification
The Company has determined that the traditional and unit-linked insurance policies (that link the payments on the contract to units of IIFs have significant insurance risk and, therefore meet the definition of an insurance contract and should be accounted for as such.

The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are clearly and closely related to the host insurance and therefore not bifurcated. 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).

Determining the lease term of contract with renewal and termination options – Company as lessee
The Company has a lease contract that includes renewal and termination options. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as location and importance of the office space to its operations that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimates and Assumptions
The key estimates and assumptions concerning future and other key sources of estimation uncertainty at the reporting date that have significant risks of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Claims liability arising from insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for those claims.

Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on the mortality and morbidity that are appropriate to the nature of the risks covered based on the Company's actual experience. The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in turn is monitored against current and future premiums.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provision of the Code, estimates for future deaths, voluntary terminations, investment returns and administration expenses are determined at the inception of the contract and are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in the adjustments to the liability. The interest rates used to discount future liabilities are based on the published rates by the Insurance Commission, which are in turn are based on the BVAL PHP Reference rates and International Yield Curve (IYC) for peso- and US dollar (USD)-denominated policies, respectively.

The carrying value of the legal policy reserves amounted to ₱56.58 billion and ₱45.03 billion as of December 31, 2021 and 2020, respectively (see Note 10).

Estimation of allowance for impairment losses
The Company reviews its loans and receivables at each reporting date to assess whether an allowance for impairment losses should be recorded in the statement of income. 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 Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. 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, the length of the Company's relationship with the debtors, the debtor's payment behavior, legal opinion on recoverability in case of legal disputes and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring specific allowance, have a greater risk of default than when originally granted. This collective allowance takes into consideration any deterioration in the loans and receivables.

As of December 31, 2021 and 2020, the carrying value of loans and receivables amounted to ₱227.88 million and ₱219.74 million, respectively (see Note 5). There is no allowance for impairment losses as of December 31, 2021 and 2020.

Estimated useful lives of property and equipment and ROU asset
The Company reviews annually the estimated useful lives of property and equipment and ROU asset based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment and ROU asset would increase recorded depreciation and amortization and decrease the related asset accounts.

As of December 31, 2021 and 2020, the carrying values of property and equipment amounted to ₱27.55 million and ₱27.46 million, respectively (see Note 8). As of December 31, 2021 and 2020, the carrying value of ROU asset amounted to ₱6.30 million and ₱9.20 million, respectively (see Note 22).

Recognition of pension asset
The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined

benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The Company recognized pension asset amounting to ₱8.86 million and ₱1.03 million as of December 31, 2021 and 2020, respectively (see Notes 9 and 20).

In determining the appropriate discount rate, the Company considers the interest rates of Philippine government bonds that are denominated in the currency in which the benefits will be paid and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

The salary increase rates are based on expected future inflation rates, historical annual merit, market and promotional increases.

The mortality rate represents the proportion of current plan members who might die prior to retirement and hence be entitled to death benefits instead of retirement benefits. This is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements.

Further details about the assumptions used are provided in Note 20.

Recognition of deferred tax assets
Deferred tax assets are recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. See Note 21 for related balances.

Contingencies
The Company is currently involved in various proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* is not disclosed as it may prejudice the outcome of these on-going claims and assessments.

Lease - Estimating the incremental borrowing rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Company estimates the IBR using observable inputs (i.e., market interest rates) when available and is required to make certain entity-specific estimates (i.e., its credit spread).

4. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash on hand		
Petty cash fund	**₱95,753**	₱95,753
Cash in banks	**1,644,964,300**	1,557,089,682
Short-term deposits in banks	**454,103,162**	808,153,232
	₱2,099,163,215	₱2,365,338,667

Cash in banks earns interest at the corresponding bank deposit rate. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Company and earn interest at the corresponding short-term deposit rate. The range of interest rates is from 0.125% to .45% and from 0.125% to 1.00% in 2021 and 2020, respectively.

Interest earned amounted to ₱6.87 million and ₱7.10 million in 2021 and 2020, respectively (see Note 17).

5. Financial Assets

The Company's financial assets are summarized below:

	2021	2020
Financial assets designated at FVPL (Note 6)	**₱51,257,447,715**	₱39,032,175,594
AFS financial assets	**2,557,760,579**	2,387,507,350
Loans and receivables	**227,881,194**	219,740,429
	₱54,043,089,488	₱41,639,423,373

The assets included in each of the financial asset categories are detailed below:

a) *Financial Assets designated at FVPL*

Financial assets designated at FVPL pertain to the net assets of the variable unit-linked (VUL) funds backing the VUL policies issued by the Company. The net assets amounted to ₱51.26 billion and ₱39.03 billion as of December 31, 2021 and 2020, respectively (see Note 6).

The net fair value gain (loss) on financial assets designated at FVPL included in the statements of income amounted to ₱0.71 million loss and ₱0.25 million gain in 2021 and 2020, respectively.

b) *AFS Financial Assets*

This account consists of:

	2021	2020
Quoted debt securities:		
Government bonds	**₱2,503,668,014**	₱2,343,135,674
Corporate bonds	**44,092,565**	44,371,676
UITF	**10,000,000**	-
	₱2,557,760,579	₱2,387,507,350

The roll-forward analysis of AFS financial assets follows:

	2021	**2020**
Balance at beginning of year	**₱2,387,507,350**	₱1,978,339,570
Additions	**437,565,875**	279,847,589
Disposals/maturities	**-**	(129,992,548)
Net premium amortization	**(13,889,216)**	(8,860,891)
Fair value gain recognized in other comprehensive income	**(253,423,430)**	268,173,630
Balance at end of year	**₱2,557,760,579**	₱2,387,507,350

The movement in unrealized fair value gains (losses) on AFS financial assets follows:

	2021	2020
Balance at beginning of year	**₱217,888,251**	(₱45,239,221)
Changes in fair value of available-for-sale financial assets	**(253,423,430)**	268,173,630
Realized gain transferred to statements of income	**-**	(5,046,158)
Net change during the year	**(253,423,430)**	263,127,472
Balance at end of year	**(₱35,535,179)**	₱217,888,251

Annual interest rates of AFS government and corporate bonds range as follows:

	2021		2020	
	From	**To**	From	To
Government bonds	**2.63%**	**10.25%**	2.63%	10.25%
Corporate bonds	**3.92%**	**6.08%**	3.92%	6.08%

Interest earned from AFS securities amounted to ₱100.51 million and ₱103.74 million in 2021 and 2020, respectively (see Note 17).

AFS government securities with total face value of ₱225.00 million and aggregate market value of ₱255.27 million and ₱292.47 million as of December 31, 2021 and 2020, respectively, are deposited with the Insurance Commission pursuant to the provisions of the Insurance Code as security for the benefit of policyholders and creditors of the Company.

(c) *Loans and Receivables*

This account consists of:

	2021	2020
Policy loans	**₱117,640,251**	₱120,777,574
Management fee receivable (Note 6)	**87,797,861**	69,204,448
Due from related parties (Note 15)	**1,306,386**	1,307,871
Security fund contribution	**141,244**	141,244
Other receivables	**20,995,452**	28,309,292
	₱227,881,194	₱219,740,429

Policy loans pertain to loans issued to policyholders. A policy loan is secured with the cash surrender value and earned interest on the policy. Interest rates charged range from 7.00% to 8.00% per annum in 2021 and 2020, respectively.

Management fee receivables represents the uncollected portion of the management income on IIFs.

The security fund, which is held by the Insurance Commission in compliance with Sections 365 and 367 of the Code, as amended under Presidential Decree 1640, is to be used for payment of valid claims against insolvent insurance companies.

Others include due from officers and employees and miscellaneous receivables.

Interest earned from loans and receivable amounted to ₱9.70 million and ₱9.25 million in 2021 and 2020, respectively (see Note 17).

6. **Insurance Investment Funds (IIFs)**

The Company issues unit-linked insurance contracts where the payments to policyholders are linked to insurance investment funds set up by the Company. The Company classified Insurance Investment Funds (IIFs) as Financial Assets at Fair Value Thru Profit and Loss (FVPL).

The debt and equity securities of these funds are included in the financial assets at FVPL of the Company (see Note 5).

The IIFs are set up using a fund-in-fund approach. Under this structure, the IIFs purchase units of a pool of assets, which are referred to as Underlying Funds (UF). The UFs consist of Peso Bond Pool, Money Market Pool, Peso Equity Pool, US Dollar Bond Pool, Dynamic Allocation Equity Pool, Peso Cash Pool, Power House Pool, Global Target Income Pool, Asia Pacific Bond Pool, Asean Growth Pool, Asia First Pool, Chinabank Dollar Fixed Income VUL fund, Asia Pacific Property Income Pool (Peso), Asia Pacific Property Income Pool (Dollar), US Growth Pool (Peso), US Growth Pool (Dollar), Global Preferred Securities Income Pool (Peso), Global Preferred Securities Income Pool (Dollar), Tiger Growth Pool (Peso), and Tiger Growth Pool (Dollar).

The Company and Hongkong and Shanghai Banking Corporation (HSBC) entered into a non-fiduciary fund administration agreement whereby HSBC shall act as the Administrator of the UFs. The Administration is limited to performing administrative services and does not have any discretion or control with respect to the management or disposition of the UFs. The administration fee of HSBC is charged directly against the UFs.

On September 12, 2017, the Company and Manulife Investment Management and Trust Corporation (MIMTC), an affiliate, entered into an investment advisory agreement whereby MIMTC shall act as the investment manager of the UFs. Management fees charged by MIMTC are billed on a monthly basis and are payable within 30 days from receipt of billing statement. The management fees paid to MIMTC is recognized as ‘Management fees’ under ‘General and administrative expenses’ in the statements of income.

The details of the IIFs are as follows:

December 31, 2021

	Net assets	**Due to unit linked holders**	**Seed Capital**	**Total**
Peso Dynamic Allocation Fund	**₱3,665,170,383**	**₱3,663,287,461**	**₱1,882,922**	**₱3,665,170,383**
Peso Bond Fund	**65,423,404**	**63,370,105**	**2,053,299**	**65,423,404**
Peso Stable Fund	**35,497,918**	**33,497,635**	**2,000,283**	**35,497,918**
Peso Equity Fund	**113,217,928**	**111,438,863**	**1,779,065**	**113,217,928**
Peso Secure Fund	**1,482,595,554**	**1,480,550,224**	**2,045,330**	**1,482,595,554**
Peso Diversified Value Fund	**1,643,088,992**	**1,641,089,755**	**1,999,236**	**1,643,088,991**
Peso Growth Fund	**5,926,386,163**	**5,924,613,720**	**1,772,443**	**5,926,386,163**
Peso Balanced Fund	**50,756,952**	**48,868,935**	**1,888,017**	**50,756,952**
Peso Target Income Fund	**209,975,210**	**208,328,920**	**1,646,291**	**209,975,211**
Peso Target Distribution Fund	**6,715,265,651**	**6,713,647,165**	**1,618,486**	**6,715,265,651**
Wealth Optimizer 2026 Fund	**255,861,484**	**254,058,232**	**1,803,252**	**255,861,484**
Wealth Optimizer 2031 Fund	**57,110,034**	**55,385,697**	**1,724,337**	**57,110,034**
Wealth Optimizer 2036 Fund	**30,696,387**	**29,008,220**	**1,688,167**	**30,696,387**
US Dollar Bond Fund	**76,608,362**	**74,426,764**	**2,181,598**	**76,608,362**
US Dollar Secure Fund	**251,904,776**	**249,817,536**	**2,087,240**	**251,904,776**
Peso Cash Fund	**13,417,132**	**11,928,648**	**1,488,484**	**13,417,132**
Powerhouse Fund	**6,587,156,290**	**6,585,363,222**	**1,793,067**	**6,587,156,289**
Global Target Income Fund	**17,446,072,079**	**17,443,799,003**	**2,273,077**	**17,446,072,080**
Asia Pacific Bond Fund	**77,076,672**	**74,929,012**	**2,147,660**	**77,076,672**
Asean Growth Fund	**421,885,688**	**419,386,514**	**2,499,173**	**421,885,687**
Asia First Fund	**54,050,933**	**51,117,786**	**2,933,146**	**54,050,932**
Fixed Income VUL Fund	**219,480,730**	**217,205,250**	**2,275,480**	**219,480,730**
Asia Pacific Property Income Fund (Peso)	**3,205,698,245**	**3,203,816,440**	**1,881,805**	**3,205,698,245**
Asia Pacific Property Income Fund (Dollar)	**1,937,041,256**	**1,935,056,520**	**1,984,736**	**1,937,041,256**
US Growth Fund (Peso)	**147,058,704**	**144,748,065**	**2,310,639**	**147,058,704**
US Growth Fund (Dollar)	**63,274,267**	**61,068,417**	**2,205,850**	**63,274,267**
Global Preferred Securities Income Fund (Peso)	**335,462,795**	**333,352,775**	**2,110,020**	**335,462,795**
Global Preferred Securities Income Fund (Dollar)	**91,465,380**	**89,429,691**	**2,035,689**	**91,465,380**
Tiger Growth Fund (Peso)	**49,770,026**	**48,058,953**	**1,711,073**	**49,770,026**
Tiger Growth Fund (Dollar)	**28,978,320**	**27,352,074**	**1,626,248**	**28,978,322**
	₱51,257,447,715	**₱51,198,001,602**	**₱59,446,113**	**₱51,257,447,715**

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	Net assets	Due to unit linked holders	Seed Capital	Total
Peso Dynamic Allocation Fund	₱3,771,805,317	₱3,769,898,025	₱1,907,292	₱3,771,805,317
Peso Bond Fund	76,853,852	74,740,080	2,113,772	76,853,852
Peso Stable Fund	42,697,577	40,653,238	2,044,339	42,697,577
Peso Equity Fund	120,468,526	118,688,490	1,780,036	120,468,526
Peso Secure Fund	1,617,886,920	1,615,778,535	2,108,385	1,617,886,920
Peso Diversified Value Fund	1,814,535,382	1,812,491,402	2,043,980	1,814,535,382
Peso Growth Fund	5,634,232,203	5,632,455,493	1,776,710	5,634,232,203
Peso Balanced Fund	57,394,607	55,483,820	1,910,787	57,394,607
Peso Target Income Fund	213,256,877	211,524,636	1,732,241	213,256,877
Peso Target Distribution Fund	6,283,326,963	6,281,620,103	1,706,860	6,283,326,963
Wealth Optimizer 2026 Fund	235,109,724	233,273,614	1,836,110	235,109,724
Wealth Optimizer 2031 Fund	47,298,981	45,553,914	1,745,067	47,298,981
Wealth Optimizer 2036 Fund	28,610,990	26,908,866	1,702,124	28,610,990
US Dollar Bond Fund	82,870,069	80,741,343	2,128,726	82,870,069
US Dollar Secure Fund	300,730,565	298,690,588	2,039,977	300,730,565
Peso Cash Fund	17,601,526	16,103,109	1,498,417	17,601,526
Powerhouse Fund	5,576,097,377	5,574,293,604	1,803,773	5,576,097,377
Global Target Income Fund	9,950,610,415	9,948,439,386	2,171,029	9,950,610,415
Asia Pacific Bond Fund	90,981,530	88,852,354	2,129,176	90,981,530
Asean Growth Fund	543,132,738	541,090,702	2,042,036	543,132,738
Asia First Fund	42,709,510	39,907,886	2,801,624	42,709,510
CBC Fixed Income VUL Fund	186,590,159	184,391,088	2,199,071	186,590,159
Asia Pacific Property Income Fund (Peso)	1,087,106,155	1,085,297,135	1,809,020	1,087,106,155
Asia Pacific Property Income Fund (Dollar)	1,210,267,631	1,208,361,941	1,905,690	1,210,267,631
	₱39,032,175,594	₱38,985,239,352	₱46,936,242	₱39,032,175,594

The breakdown of the net assets of the IIFs is as follows:

	December 31, 2021															
	Peso Bond Pool	**Peso Money Market Pool**	**Peso Equity Pool**	**USD Bond Pool**	**Dynamic Asset Allocation Equity Pool**	**Peso Cash Pool**	**Powerhouse Pool**	**Global Target Income Pool**	**Asia Pacific Bond Pool**	**Asean Growth Pool**	**Asia First Pool**	**CBC Fixed Income VUL Pool**	**Asia Pacific Property Income Pool (Peso)**	**Asia Pacific Property Income Pool (Dollar)**	**Accrued Management Fees**	**Total**
Peso Dynamic Allocation Fund	₱1,334,075,218	₱–	₱–	₱–	₱2,338,191,253	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	(₱7,096,088)	₱3,665,170,383
Peso Bond Fund	65,508,004	–	–	–	–	–	–	–	–	–	–	–	–	–	(84,600)	65,423,404
Peso Stable Fund	20,467,310	6,956,126	8,128,413	–	–	–	–	–	–	–	–	–	–	–	(53,931)	35,497,918
Peso Equity Fund	–	–	113,413,672	–	–	–	–	–	–	–	–	–	–	–	(195,744)	113,217,928
Peso Secure Fund	1,484,814,003	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,218,449)	1,482,595,554
Peso Diversified Value Fund	949,147,372	322,395,580	374,363,438	–	–	–	–	–	–	–	–	–	–	–	(2,817,398)	1,643,088,992
Peso Growth Fund	–	–	5,937,859,124	–	–	–	–	–	–	–	–	–	–	–	(11,472,961)	5,926,386,163
Peso Balanced Fund	18,449,987	–	–	–	32,394,542	–	–	–	–	–	–	–	–	–	(87,577)	50,756,952
Peso Target Income Fund	95,044,048	35,608,360	–	–	79,789,268	–	–	–	–	–	–	–	–	–	(466,466)	209,975,210
Peso Target Distribution Fund	3,040,254,805	1,139,031,212	–	–	2,552,339,797	–	–	–	–	–	–	–	–	–	(16,360,163)	6,715,265,651
Wealth Optimizer 2026 Fund	105,207,197	4,413,609	146,850,469	–	–	–	–	–	–	–	–	–	–	–	(609,791)	255,861,484
Wealth Optimizer 2031 Fund	11,621,247	259,265	45,365,386	–	–	–	–	–	–	–	–	–	–	–	(135,864)	57,110,034
Wealth Optimizer 2036 Fund	2,345,198	27,963	28,396,338	–	–	–	–	–	–	–	–	–	–	–	(73,112)	30,696,387
US Dollar Bond Fund	–	–	–	76,723,373	–	–	–	–	–	–	–	–	–	–	(115,011)	76,608,362
US Dollar Secure Fund	–	–	–	252,324,469	–	-	–	–	–	–	–	–	–	–	(419,693)	251,904,776
Peso Cash Fund	–	–	–	–	–	13,419,127	–	–	–	–	–	–	–	–	(1,995)	13,417,132
Powerhouse Fund	–	–	–	–	–	–	6,598,447,214	–	–	–	–	–	–	–	(11,290,924)	6,587,156,290
Global Target Income Fund	–	–	–	–	–	–	–	17,468,412,233	–	–	–	–	–	–	(22,340,154)	17,446,072,079
Asia Pacific Bond Fund	–	–	–	–	–	–	–	–	77,209,573	–	–	–	–	–	(132,901)	77,076,672
Asean Growth Fund	–	–	–	–	–	–	–	–	–	422,695,960	–	–	–	–	(810,272)	421,885,688
Asia First Fund	–	–	–	–	–	–	–	–	–	–	54,153,385	–	–	–	(102,452)	54,050,933
Fixed Income VUL Fund	–	–	–	–	–	–	–	–	–	–	–	219,857,446	–	–	(376,716)	219,480,730
Asia Pacific Property Income Fund (Peso)	–	–	–	–	–	–	–	–	–	–	–	–	3,211,521,070	–	(5,822,825)	3,205,698,245
Asia Pacific Property Income Fund (Dollar)	–	–	–	–	–	–	–	–	–	–	–	–	–	1,940,530,057	(3,488,801)	1,937,041,256
	₱7,126,934,389	₱1,508,692,115	₱6,654,376,840	₱329,047,842	₱5,002,714,860	₱13,419,127	₱6,598,447,214	₱17,468,412,233	₱77,209,573	₱422,695,960	₱54,153,385	₱219,857,446	₱3,211,521,070	₱1,940,530,057	(₱86,573,888)	₱50,541,438,223

	US Growth Fund (Peso)	**US Growth Fund (Dollar)**	**Global Preferred Securities Income Fund (Peso)**	**Global Preferred Securities Income Fund (Dollar)**	**Tiger Growth Fund (Peso)**	**Tiger Growth Fund (Dollar)**	**Accrued Management Fees**	**Total**
US Growth Fund (Peso)	147,166,634	–	–	–	–	–	(107,930)	147,058,704
US Growth Fund (Dollar)	–	63,539,911	–	–	–	–	(265,644)	63,274,267
Global Preferred Securities Income Fund (Peso)	–	–	335,989,987	–	–	–	(527,192)	335,462,795
Global Preferred Securities Income Fund (Dollar)	–	–	–	91,640,181	–	–	(174,801)	91,465,380
Tiger Growth Fund (Peso)	–	–	–	–	49,861,579	–	(91,553)	49,770,026
Tiger Growth Fund (Dollar)	–	–	–	–	–	29,035,173	(56,853)	28,978,320
	147,166,634	63,539,911	335,989,987	91,640,181	49,861,579	29,035,173	(1,223,973)	716,009,492

	December 31, 2020															
	Peso Bond Pool	Peso Money Market Pool	Peso Equity Pool	USD Bond Pool	Dynamic Asset Allocation Equity Pool	Peso Cash Pool	Powerhouse Pool	Global Target Income Pool	Asia Pacific Bond Pool	Asean Growth Pool	Asia First Pool	CBC Fixed Income VUL Pool	Asia Pacific Property Income Pool (Peso)	Asia Pacific Property Income Pool (Dollar)	Accrued Management Fees	Total
Peso Dynamic Allocation Fund	₱1,713,485,481	₱–	₱–	₱–	₱2,065,526,675	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–	(₱7,206,839)	₱3,771,805,317
Peso Bond Fund	76,951,493			–	–	–	–	–	–	–	–	–	–	–	(97,641)	76,853,852
Peso Stable Fund	24,991,489	8,335,589	9,434,452	–	–	–	–	–	–	–	–	–	–	–	(63,953)	42,697,577
Peso Equity Fund	–	–	120,674,697	–	–	–	–	–	–	–	–	–	–	–	(206,171)	120,468,526
Peso Secure Fund	1,620,286,743	–	–	–	–	–	–	–	–	–	–	–	–	–	(2,399,823)	1,617,886,920
Peso Diversified Value Fund	1,062,920,378	354,387,855	400,285,739	–	–	–	–	–	–	–	–	–	–	–	(3,058,590)	1,814,535,382
Peso Growth Fund	–	–	5,644,959,372	–	–	–	–	–	–	–	–	–	–	–	(10,727,169)	5,634,232,203
Peso Balanced Fund	26,068,495		–	–	31,423,813	–	–	–	–	–	–	–	–	–	(97,701)	57,394,607
Peso Target Income Fund	104,972,369	31,532,761	–	–	77,074,528	–	–	–	–	–	–	–	–	–	(322,781)	213,256,877
Peso Target Distribution Fund	3,093,738,668	929,327,895	–	–	2,271,140,745	–	–	–	–	–	–	–	–	–	(10,880,345)	6,283,326,963
Wealth Optimizer 2026 Fund	86,241,228	3,266,951	146,013,205	–	–	–	–	–	–	–	–	–	–	–	(411,660)	235,109,724
Wealth Optimizer 2031 Fund	8,144,172	162,832	39,074,959	–	–	–	–	–	–	–	–	–	–	–	(82,982)	47,298,981
Wealth Optimizer 2036 Fund	2,097,719	24,508	26,538,361	–	–	–	–	–	–	–	–	–	–	–	(49,598)	28,610,990
US Dollar Bond Fund	–	–	–	82,980,085	–	–	–	–	–	–	–	–	–	–	(110,016)	82,870,069
US Dollar Secure Fund	–	–	–	301,194,036	–	–	–	–	–	–	–	–	–	–	(463,471)	300,730,565
Peso Cash Fund	–	–	–	–	–	17,603,945	–	–	–	–	–	–	–	–	(2,419)	17,601,526
Powerhouse Fund	–	–	–	–	–	–	5,585,569,586	–	–	–	–	–	–	–	(9,472,209)	5,576,097,377
Global Target Income Fund	–	–	–	–	–	–	–	9,968,966,941	–	–	–	–	–	–	(18,356,527)	9,950,610,414
Asia Pacific Bond Fund	–	–	–	–	–	–	–	–	91,088,641	–	–	–	–	–	(107,111)	90,981,530
Asean Growth Fund	–	–	–	–	–	–	–	–	–	543,746,528	–	–	–	–	(613,790)	543,132,738
Asia First Fund	–	–	–	–	–	–	–	–	–	–	42,786,682	–	–	–	(77,172)	42,709,510
CBC Fixed Income VUL Fund	–	–	–	–	–	–	–	–	–	–	–	186,871,848	–	–	(281,689)	186,590,159
Asia Pacific Property Income Fund (Peso)	–	–	–	–	–	–	–	–	–	–	–	–	1,089,030,945	–	(1,924,791)	1,087,106,154
Asia Pacific Property Income Fund (Dollar)	–	–	–	–	–	–	–	–	–	–	–	–	–	1,212,457,632	(2,189,999)	1,210,267,633
	₱7,819,898,235	₱1,327,038,391	₱6,386,980,785	₱384,174,121	₱4,445,165,761	₱17,603,945	₱5,585,569,586	₱9,968,966,941	₱91,088,641	₱543,746,528	₱42,786,682	₱186,871,848	₱1,089,030,945	₱1,212,457,632	(₱69,204,447)	₱39,032,175,594

The breakdown of assets held in IIFs designated as financial assets at FVPL is as follows (see Note 5):

	2021	2020
Cash in banks	**₱2,305,231,413**	₱791,254,018
Debt securities		
Government bonds	**7,656,521,935**	7,826,593,179
UITFs	**8,820,326,941**	4,925,972,955
Corporate bonds	**278,974,320**	534,789,824
Equity securities		
Common shares	**17,079,889,380**	15,705,611,011
Other equity securities	**14,719,337,538**	8,904,405,666
Accounts receivable	**584,514,472**	557,769,300
Accrued income	**58,905,432**	70,351,932
Accounts payable	**(158,455,855)**	(215,367,843)
Accrued management fees (Note 5)	**(87,797,861)**	(69,204,448)
	₱51,257,447,715	₱39,032,175,594

7. Accrued Income

This account consists of:

	2021	2020
Accrued interests:		
AFS debt financial assets		
Government bonds	**₱26,025,072**	₱19,732,017
Corporate bonds	**342,390**	342,390
Cash and cash equivalents	**147,039**	7,062
	₱26,514,501	₱20,081,469

8. Property and Equipment

The rollforward analysis of this account follows:

December 31, 2021

	EDP Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment	Total
Cost					
At beginning of year	₱105,788,606	₱2,002,350	₱315,799	₱73,838,299	₱181,945,054
Additions	4,195,782	226,688	852,679	6,629,830	11,904,979
Disposals	-	-	-	(5,785,821)	(5,785,821)
At end of year	109,984,388	2,229,038	1,168,478	74,682,308	188,064,212
Accumulated depreciation and amortization					
At beginning of year	100,325,905	2,002,350	279,026	51,873,355	154,480,636
Depreciation and amortization (Note 19)	2,164,128	22,669	95,880	7,654,117	9,936,794
Disposals	-	-	-	(3,902,625)	(3,902,625)
At end of year	102,490,033	2,025,019	374,906	55,624,847	160,514,805
Net book value	₱7,494,355	₱204,019	₱793,572	₱19,057,461	₱27,549,407

December 31, 2020

	EDP Equipment	Leasehold Improvements	Furniture and Fixtures	Transportation Equipment	Total
Cost					
At beginning of year	₱101,428,923	₱2,002,350	₱315,799	₱68,282,332	₱172,029,404
Additions	4,359,683	–	–	5,555,967	9,915,650
At end of year	105,788,606	2,002,350	315,799	73,838,299	181,945,054
Accumulated depreciation and amortization					
At beginning of year	98,522,819	1,960,407	223,866	43,411,782	144,118,874
Depreciation and amortization (Note 19)	1,803,086	41,943	55,160	8,461,573	10,361,762
At end of year	100,325,905	2,002,350	279,026	51,873,355	154,480,636
Net book value	₱5,462,701	₱–	₱36,773	₱21,964,944	₱27,464,418

As of December 31, 2021 and 2020, fully depreciated property and equipment that are still in use amounted to ₱135.75 million and ₱134.67 million, respectively.

9. Other Assets

This account consists of:

	2021	2020
Prepayments	**₱11,478,077**	₱42,597,134
Deferred input VAT	**8,978,765**	–
Pension asset (Note 20)	**8,863,010**	1,034,639
Deposits	**4,711,521**	4,957,583
	34,031,373	48,589,356
Less: Allowance for impairment losses	**(942,778)**	(698,206)
	₱33,088,595	₱47,891,150

Prepayments include local business taxes, input tax and advanced salaries. Deposits pertains to advance rental payments. Deferred input VAT arises from purchases of goods and services from VAT registered suppliers which were not yet paid as of reporting date.

The rollforward analysis of the allowance for impairment losses follows:

	2021	2020
Balance as at beginning of year	**(₱698,206)**	(698,206)
Provision during the year (Note 19)	**(244,572)**	-
Balance as at end of year	**(₱942,778)**	(698,206)

10. Insurance Contract Liabilities

This account consists of:

	2021	2020
Legal policy reserves	**₱56,582,341,905**	45,033,601,528
Policy and contract claims payable	**284,559,404**	90,276,492
IBNR	**68,863,477**	22,478,656
	₱56,935,764,786	45,146,356,676

Legal policy reserves may be analyzed as follows:

	2021			2020		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net of reinsurance**	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net of reinsurance
Unit-linked						
Due to unit-linked holders (Note 6)	**₱51,198,001,602**	**₱-**	**₱51,198,001,602**	₱38,985,239,352	₱–	₱38,985,239,352
Ordinary life	**5,239,248,574**	**4,068,509,622**	**1,170,738,952**	5,912,482,769	4,665,539,620	1,246,943,149
Group life	**66,695,854**	**–**	**66,695,854**	52,715,497	–	52,715,497
Accident and health	**78,395,875**	**8,987,280**	**69,408,595**	83,163,910	7,965,248	75,198,662
Total	**₱56,582,341,905**	**₱4,077,496,902**	**₱52,504,845,003**	₱45,033,601,528	₱4,673,504,868	₱40,360,096,660

	2021	2020
Gross		
Insurance contracts with discretionary participation features	**₱4,352,618,790**	₱4,990,165,941
Insurance contracts without discretionary participation features	**52,229,723,115**	40,043,435,587
	56,582,341,905	45,033,601,528
Recoverable from reinsurers		
Insurance contracts with discretionary participation features	**4,049,771,033**	4,647,868,420
Insurance contracts without discretionary participation features	**27,725,869**	25,636,448
	4,077,496,902	4,673,504,868
Net		
Insurance contracts with discretionary participation features	**302,847,757**	342,297,521
Insurance contracts without discretionary participation features	**52,201,997,246**	40,017,799,139
	₱52,504,845,003	₱40,360,096,660

The movements in legal policy reserves are as follows:

	2021			2020		
	Legal Policy Reserves	**Reinsurers' Share of Liabilities**	**Net of reinsurance**	Legal Policy Reserves	Reinsurers' Share of Liabilities	Net of reinsurance
At January 1	**₱45,033,601,528**	**₱4,673,504,868**	**₱40,360,096,660**	₱39,687,345,550	₱4,056,004,926	₱35,631,340,624
Due to change in discount rates	**(652,217,662)**	**(428,866,783)**	**(223,350,879)**	928,099,881	700,932,082	227,167,799
Due to change in policies and assumptions	**(11,804,211)**	**(167,141,183)**	**155,336,972**	306,494,842	(83,432,140)	389,926,982
Due to change in segregated funds	**12,212,762,250**	**–**	**12,212,762,250**	4,111,661,255	–	4,111,661,255
At December 31	**₱56,582,341,905**	**₱4,077,496,902**	**₱52,504,845,003**	₱45,033,601,528	₱4,673,504,868	₱40,360,096,660

The movements in the legal policy reserves due to change in discount rates are recorded under 'Remeasurement loss on policy reserves,' net of tax. The rollforward analyses of this account follow:

	2021	2020
At January 1	**(₱167,767,250)**	(₱8,749,790)
Arising during the year, net of tax	**155,529,784**	(159,017,460)
At December 31	**(₱12,237,466)**	(₱167,767,250)

The movements during the year in policy and contract claims payable and IBNR are as follows:

	2021	2020
At beginning of year	**₱112,755,148**	₱182,030,649
Additions during the year (Note 18)	**685,903,270**	139,985,987
Paid during the year	**(445,235,537)**	(209,261,488)
At end of year	**₱353,422,881**	₱112,755,148

11. Insurance Contract Liabilities and Reinsurance Assets - Terms, Assumptions and Sensitivities

Life Insurance Contracts

For life insurance contracts with fixed and guaranteed terms, estimates are made in two stages. At the inception of the contracts, the Company determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. These assumptions are used for calculating the liabilities during the life of the contract. A margin for risk and uncertainty is added to these assumptions.

Terms

Life insurance contracts offered by the Company mainly include whole life, term insurance, endowments and unit-linked products.

Whole life and term insurance are conventional products where lump sum benefits are payable on death, provided death occurs within the terms of the policy.

Endowment products are products where lump sum benefits are payable after a fixed period or upon death if it occurs before the period is completed.

Unit-linked products differ from conventional policies in that premium, net of applicable charges, are allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.

Key Assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance and investment contracts. Assumptions used are based on past experience, current internal data and conditions and external market indices and benchmarking, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate and prudent estimates at the date of valuation, 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 also subject to the provisions of the Code and guidelines set by the Insurance Commission.

The key assumptions to which the estimation of liabilities is particularly sensitive follows:

- *Mortality and morbidity*
  The mortality and morbidity assumptions are based on rates of mortality and morbidity that are appropriate to the nature of the risks covered based on the Parent Company's actual experience.

  In 2021, the mortality assumption is based on the company's 2021 Mortality Study, which covers actual death claims experience for policies issued from January 1, 2006 to December 31, 2020. In 2020, the mortality assumption is based on the company's 2018 Mortality Study, which covers actual death claims experience for policies issued from January 1, 2002 to December 31, 2016.

  In 2021, the morbidity assumptions are based on the 2019 Morbidity study, which covers actual living claims experience based on exposure from January 1, 2012 to December 31, 2018. In 2019, the morbidity assumptions are based on the 2016 Morbidity study, which covers actual living claims experience based on exposure from January 1, 2009 to September 30, 2015. The morbidity assumptions are consistent with the IC approved rates used in product pricing.

- *Discount rates*
  Discount rates relate to the time value of money. The risk-free discount rate shall be the equivalent zero-coupon spot yield of the above yield curve with matching duration for durations less than or equal to 20 years. The valuation interest rate assumptions are consistent with risk free forward yield curve as provided by IC. Discount rates used as of December 31, 2021 and 2020 follow:

	2021	2020
Peso	**BVAL PHP Reference Yield Curve 2.03% - 5.34%**	BVAL PHP Reference Yield Curve 1.58% - 4.17%
Dollar	**International Yield Curve 0.74% - 3.43%**	International Yield Curve 0.39% - 2.80%

  The assumptions are reviewed and revised at each reporting date. A decrease in discount rate would result in remeasurement loss on life insurance reserves.

- *Expenses*
  The expense assumptions are based on the Company's results of the 2021 Expense Study.

- *Lapses and/or persistency rates*
  Lapse and/or persistency rates reflective of the Company's actual experience with due regard to changes in the Company's lapse and reinstatement practices and market conditions, are taken as the best estimate lapse and/or persistency assumption. Lapse assumptions used for traditional and its rider products were based on the Company's 2021 Lapse experience study while premium-paying riders attached to unit-linked (UL) products are based on the 2019 Unit-linked rider lapse study. Lapse and Partial Withdrawal of UL products were based on 2021 Unit-Linked Lapse and Redemption Study, which covers actual experience during the period January 1, 2010 to December 31, 2020.

The estimation of liabilities include margin for adverse deviations (MfADs) of +/-10% of the best estimate assumptions as prescribed by IC Circular Letter No. 2016-66.

Reinsurance - Assumptions and Methods
The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on surplus-share basis with retention limits varying by product. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statements of financial position as reinsurance assets.

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Reinsurance Agreement with Manulife Philippines
On January 1, 2008, the Company entered into a reinsurance agreement with Manulife Philippines. The reinsurance premiums to be paid by the Company to Manulife Philippines will be net of distribution loading, commission, premium taxes, documentary stamp taxes, value added taxes (VAT), local government and withholding taxes.

On June 30, 2014, the reinsurance agreement with Manulife Philippines was terminated. The reinsurance agreement continues to be valid for all policies covered by such agreement. As of December 31, 2021 and 2020, the Company's insurance payable to Manulife Philippines amounted to ₱998.05 million and ₱921.20 million, respectively.

As of December 31, 2021 and 2020, the Company's reinsurance assets related to this agreement amounted to ₱5.08 billion and ₱5.48 billion, respectively. The balance as of December 31, 2021 and 2020 comprised of reinsurers' share of insurance contract liabilities of ₱4.08 billion and ₱4.67 billion, respectively and receivable related to death claims ceded by the Company to Manulife Philippines of ₱1,005.32 million and ₱802.58 million, respectively.

Reinsurance Agreement with Manulife International Limited
On July 1, 2015, the Company entered into a reinsurance agreement with the National Reinsurance Corporation of the Philippines as the reinsurer, and Manulife (International) Limited of Bermuda as the retrocessionaire. The agreement shall be conducted on a yearly-renewable basis, and shall cover individual death risks and all benefits attaching to the death cover unless excluded pursuant to the treaty. The reinsurance premiums to be paid by the Company to the reinsurer and retrocessionaire shall be in accordance with the rates stipulated in the treaty. As of December 31, 2021 and 2020, the insurance payable (receivable) to Manulife (International) Limited of Bermuda amounted to (₱25.76) million and ₱13.77 million, respectively.

Reinsurance Agreement with ModCo
The Company has entered into a Quota Share Reinsurance Agreement with Munich RE (the reinsurer) in September 2017, effective July 1, 2017, whereby the Company will cede to the reinsurer proportionate share of premiums reinsured as stipulated in the agreement.

As of December 31, 2021 and 2020, the Company's insurance payable to ModCo amounted to ₱303.66 million and ₱294.75 million, respectively.

As of December 31, 2021 and 2020, the Company's reinsurance assets related to this agreement amounted to ₱255.36 million and ₱263.71 million, respectively.

The proportionate share of the Reinsurer in the benefits reinsured are recorded by the Company as 'Reinsurers' share of gross premiums earned on insurance contracts' in the statements of income. Reinsurance allowance due from the Reinsurer are recorded as 'Other income' in the statements of income.

12. **Accounts Payable and Accrued Expenses**

This account consists of:

	2021	2020
Accrued expenses	**₱231,727,614**	₱365,262,607
Remittances not yet allocated	**183,178,568**	202,179,459
Advance premiums and other policy-related liabilities	**183,810,643**	261,708,726
Commissions payable (Note 15)	**32,701,486**	29,840,329
Taxes payable	**24,841,402**	11,520,075
	₱656,259,713	₱870,511,196

Accrued expenses pertain to accruals for agency conferences, management fees related to IIFs amounting to ₱87.20 million and ₱69.20 million as of December 31, 2021 and 2020, respectively (Note 6) and various liabilities to suppliers. This also includes liabilities for Philhealth, Social Security System (SSS) contributions and salary loans, Home Development Mutual Fund (HDMF) contributions and loans, and other miscellaneous liabilities.

Remittances not yet allocated pertain to premium collections from policyholders that are still unapplied to their corresponding accounts.

Advance premiums and other policy-related liabilities include premiums received from policy holders awaiting the issuance or reinstatement of policies.

Taxes payable consists of withholding taxes related to the cost allocation from the Parent Company, fringe benefits and premium taxes. These are normally settled within one year.

13. **Capital Stock**

Capital stock of the Company as of the December 31, 2021 and 2020 consists of the following:

	Number of shares	Amount
Authorized capital stock - par value ₱100	5,000,000	₱500,000,000
Issued capital stock - par value	5,000,000	500,000,000
Additional paid-in capital	–	525,000,000
		₱1,025,000,000

14. Contingency Surplus

On March 22, 2019, the Parent Company and China Banking Corporation (CBC) infused additional capital of ₱60.00 million and ₱40.00 million to the Company, respectively. The capital injection was recognized as 'Contingency surplus' presented within equity in the statements of financial position.

On January 31, 2021, the contingency surplus amounting to ₱60.00 million and ₱40.00 million were returned to the Parent company and CBC, respectively.

15. Related Party Transactions

The Company has entered into various transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control (referred to as affiliates). Related parties may be individuals or corporate entities.

Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2021 and 2020. This assessment is undertaken at each financial year through a review of the financial position of the related party and the market in which the related party operates.

The Company has the following volume of transactions and net outstanding balances due to related parties:

As of December 31, 2021

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Parent Company	**Manulife Philippines**	**Insurance Payable**	**99% of in-force business ceded to the Parent Company and 1% retained by the Company**	**Unsecured, non-interest bearing, due and demandable**	**₱76,854,247**	**₱998,049,468**
		Reinsurance Assets	**Reinsurance assets**	**No term**	**(395,129,626)**	**5,080,958,556**
		Due to Related Parties	**Management fee related to unit-linked investments ceded out to the Parent Company**	**Unsecured, non-interest bearing, due and demandable**	**181,511,193**	**281,378,679**
		Due to Related Parties	**Administrative charges**	**Unsecured, non-interest bearing, due and demandable**	**77,836,408**	**118,098,352**
Ultimate Parent Company	**Manulife Financial Corporation**	**Due from related party**	**Reimbursement of expenses**	**Unsecured, non-interest bearing, no impairment**	**(1,485)**	**1,306,386**
Under Common Control	**Manulife Business Processing Services**	**Due to Related Parties**	**Accrued Portia charge**	**Unsecured, non-interest bearing, due and demandable**	**47,178**	**732,878**

(Forward)

As of December 31, 2021

	Entities	**Financial Statement Account**	**Nature**	**Terms and Conditions**	**Transactions during the year**	**Outstanding Balance**
	Manulife International Limited	**Insurance Payable (Receivable)**	**Payment of reinsurance payable which consist of premium, recoverable and administrative charges**	**Unsecured, non-interest bearing, due and demandable**	**(₱39,536,076)**	**(₱25,763,654)**
	Manulife Regional Office	**Due to Related Parties**	**Reimbursement of expenses**	**Unsecured, non-interest bearing, due and demandable**	**97,456**	**1,171,031**
	Manulife Asset Management and Trust Corporation	**Due to Related Parties**	**Trust fees**	**Per investment management agreement and investment advisory agreement**	**(691,988)**	**7,605,879**
		Due to Related Parties	**Payable pertaining to withholding tax**	**Non-interest bearing**	**-**	**325,727**
Bancassurance	**China Banking Corporation**	**Commission Payable**	**Sales commissions**	**Unsecured, non-interest bearing, due and demandable**	**2,861,157**	**32,701,486**

As of December 31, 2020

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
Parent Company	Manulife Philippines	Insurance Payable	99% of in-force business ceded to the Parent Company and 1% retained by the Company	Unsecured, non-interest bearing, due and demandable	(₱119,011,814)	₱921,195,221
		Reinsurance Assets	Reinsurance assets	No term	793,292,640	5,476,088,181
		Due to Related Parties	Management fee related to unit-linked investments ceded out to Parent Company	Unsecured, non-interest bearing, due and demandable	(32,795,512)	99,867,487
		Due to Related Parties	Administrative charges	Unsecured, non-interest bearing, due and demandable	(27,514,990)	40,261,944
Ultimate Parent Company	Manulife Financial Corporation	Due from Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, no impairment	(1,485)	1,307,871
Under Common Control	Manulife Business Processing Services	Due to Related Parties	Accrued Portia charge	Unsecured, non-interest bearing, due and demandable	(24,585)	685,700

(Forward)

As of December 31, 2020

	Entities	Financial Statement Account	Nature	Terms and Conditions	Transactions during the year	Outstanding Balance
	Manulfie International Limited	Insurance Payable	Payment of reinsurance payable which consist of premium, recoverable and administrative charges	Unsecured, non-interest bearing, due and demandable	₱5,548,193	₱13,772,422
	Manulife Regional Office	Due to Related Parties	Reimbursement of expenses	Unsecured, non-interest bearing, due and demandable	₱290,270	₱1,073,575
	Manulife Asset Management and Trust Corporation	Due to Related Parties	Trust fees	Per investment management agreement and investment advisory agreement	₱1,123,058	₱8,297,867
		Due to Related Parties	Payable pertaining to withholding tax	Non-interest bearing	–	325,727
Bancassurance	China Banking Corporation	Commission Payable	Sales commissions	Unsecured, non-interest bearing, due and demandable	10,111,888	29,840,329

Administrative charges
The Company and Manulife Philippines entered into an Administrative Services Agreement on October 1, 2007. On September 29, 2014, the parties executed an addendum to the Administrative Services Agreement. As amended, the agreement requires the Company to pay Manulife Philippines for services rendered equal to:

- the actual cost incurred by Manulife Philippines in rendering the services plus 5% mark-up on life insurance policies issued after the effective date of the addendum (i.e., July 1, 2014); and
- the net costs incurred by Manulife Philippines in rendering the services plus 5% mark-up on life insurance policies issued prior to effective date.

The agreement will continue to be in effect, unless both parties mutually decide to terminate such arrangement.

Trust fees
On September 12, 2017, the Company entered into an Investment Advisory Agreement (IAA) and Investment Management Agreement (IMA) with MAMTC.

The Company entered into the IAA to avail of advisory services relative to the management of the investible funds of the unit-linked holders. The Company is charged by MAMTC 0.05% of the net asset value of accounts under management plus VAT, accrued daily and collected monthly in accordance with the IAA.

The Company entered into the IMA to avail of services for the management and investments of its investible funds. The Company is charged by MAMTC fees ranging from 0.18% to 0.90% of the net asset value of accounts under management plus VAT, accrued daily and collected monthly in accordance with the IMA.

Sales commissions
The Company entered into a Bancassurance agreement with CBC in which the Company is allowed to conduct business in its bank premises. In return, CBC receives commission fees from the Company for every successful sale.

16. Net Insurance Premiums Earned

The details of net insurance premiums earned follow:

	2021	2020
Gross premiums earned on insurance contracts:		
Unit-linked	**₱15,888,981,910**	₱8,561,788,661
Ordinary life insurance	**460,353,009**	629,683,382
Accident and health	**14,594,597**	31,334,409
Group life insurance	**202,202,487**	127,529,603
	16,566,132,003	9,350,336,055
Reinsurers' share of gross premiums earned on insurance contracts:		
Unit-linked	**305,862,630**	300,884,122
Ordinary life insurance	**40,645,202**	48,171,050
Group	**4,019,814**	–
	350,527,646	349,055,172
	₱16,215,604,357	₱9,001,280,883

17. Investment and Other Income

Investment income consists of:

	2021	2020
Interest income on:		
AFS financial assets (Note 5)	**₱100,514,501**	₱103,736,485
Loans and receivables (Note 5)	**9,700,436**	9,248,538
Cash and cash equivalents (Note 4)	**6,867,002**	7,101,196
	₱117,081,939	₱120,086,219

Interest income pertains to the interest earned on government and corporate bonds, policy loans, and time deposits.

Other income consists of:

	2021	2020
Revenue from contracts with customers:		
Management fee income	**₱788,287,495**	₱551,755,143
Revenue outside the scope of PFRS 15:		
Cost of insurance	**459,288,496**	412,938,028
Processing fee	**118,498,460**	71,766,075
Reinsurance allowance	**92,826,082**	243,536,524
Miscellaneous revenue	**113,779,895**	138,616,379
	784,392,933	866,857,006
	₱1,572,680,428	₱1,418,612,149

Management fee income refers to the income from management and administration of assets by the Company charged to the unit linked funds.

Cost of insurance are charges to policyholders used to provide for the mortality component of unit-linked products.

Processing fee pertains to the periodic charges to policyholders to service the insurance contracts during its life.

Reinsurance allowance are allowances given by reinsurers to cover upfront charges of back-end unit-linked products ceded.

Miscellaneous revenue consists of the policy administration services and monthly load charges.

18. Benefits and Claims

Gross benefits and claims incurred on insurance contracts during the year consist of:

	2021	2020
Death and hospitalization benefits	**₱514,166,353**	₱86,714,049
Maturities	**150,532,680**	39,516,410
Surrenders	**21,204,237**	13,755,529
	₱685,903,270	₱139,985,988

Gross insurance contract benefits and claims incurred on insurance contracts consist of:

	2021	2020
Unit-linked	**₱442,188,953**	₱91,929,086
Ordinary life insurance	**105,558,812**	36,376,495
Group life insurance	**137,440,168**	9,503,617
Accident and health	**715,337**	2,176,790
	₱685,903,270	₱139,985,988

Reinsurer's share of benefits and claims incurred on insurance contracts during the year consist of:

	2021	**2020**
Unit-linked	**(₱33,202,654)**	(₱42,002,197)
Ordinary life insurance	**(55,675,109)**	(2,465,948)
Accident	**(420,658)**	-
	(₱89,298,421)	(44,468,145)

Gross change in legal policy reserves, net of reinsurers' share, follows:

	2021	2020
Unit-linked	**₱15,561,648,365**	₱8,265,778,240
Ordinary life insurance	**140,374,894**	356,532,263
Group life insurance	**13,980,358**	25,118,097
Accident and health	**981,720**	8,276,622
	₱15,716,985,337	₱8,655,705,222

19. General and Administrative Expenses

This account consists of:

	2021	2020
Salaries, wages and employee benefits	**₱484,906,640**	₱376,082,084
Management fees	**168,468,607**	117,430,833
Advertising	**147,665,255**	102,538,911
Administrative charges	**110,641,120**	103,441,813
Telephone and communications	**32,226,748**	29,315,706
Depreciation and amortization (Notes 8 and 22)	**12,842,511**	16,173,197
Travel	**12,451,244**	29,582,521
Retirement costs (Note 20)	**11,916,607**	10,159,841
Outside services	**6,988,766**	8,869,784
Taxes and licenses	**5,192,831**	6,040,784
Repairs and maintenance	**5,093,072**	2,373,033
Equipment and supplies	**2,351,516**	1,600,602
Professional and other fees	**2,308,191**	2,470,414
Provision for impairment loss (Note 9)	**244,572**	–
Others	**19,363,175**	15,627,552
	₱1,022,660,855	₱821,707,075

Administrative charges
This refers to the administrative charges paid to the Parent Company in relation to the ASA entered on October 1, 2007 (See Note 15)

Management fees
This refers to management fees paid to MIMTC in relation to the IAA and IMA entered on September 12, 2017 (see Note 15).

20. Retirement Cost

As discussed in Note 2, the Company maintains a defined contribution (DC) plan which under PIC Q&A 2013-03 should be accounted for as a defined benefit plan.

Republic Act (RA) No. 7641, Retirement Pay Law, requires provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits of any collective bargaining and other agreements shall not be less than what is provided under the law. The law does not require minimum funding of the plan.

The Company established a formal defined contribution retirement plan for its regular employees. The retirement plan is non-contributory and of the defined contribution type. It provides a benefit at normal retirement equal to one hundred percent (100%) of the Member's Account Balance (Company contributions ranging from 5% to 10% of Plan Salary plus credited earnings depending on the tenure of eligible employees) or the benefit due under RA 7641, whichever is greater. The benefit is paid in a lump sum upon retirement or separation in accordance with the terms of the retirement plan. If the value of the Member's Company Account is less than the retirement benefits to which the Member is entitled under RA No. 7641, any forfeited Company contributions and earnings remaining in the retirement fund shall be used to satisfy the difference. Should such forfeited amounts be insufficient for the purpose, the Company shall pay the amount of any remaining shortfall directly to the Member.

The assets of the plan are held separately from those of the Company in a fund under the management of a trustee bank.

The latest actuarial valuation study of the Company's minimum retirement obligation under RA No. 7641 was made as of December 31, 2021.

The following table compares the present value of the Company's DB obligation and the projected DC obligation as of December 31, 2021 and 2020.

	2021	2020
DB obligation[1]	**₱37,196,478**	₱40,168,694
DC obligation[2]	**29,757,526**	29,772,982
Excess of DB over DC obligation	**₱7,438,952**	₱10,395,712

1. *Determined on an employee by employee basis as the present value of the projected benefits based on the minimum guaranteed benefits under RA. 7641*
2. *Determined on an employee by employee basis as the present value of the projected benefits at retirement attributable to Company contributions to the DC plan, then prorated by accrued service over total service.*

In 2021 and 2020, contributions made by the Company amounted to ₱8.01 million and ₱7.31 million, respectively, while retirement expense amounted to ₱11.92 million and ₱10.16 million, respectively.

In 2021 and 2020, certain employees of an affiliate were transferred to the Company with various effective dates in 2021 and 2020, respectively. Consequently, the Company acquired the defined benefit obligation and plan assets pertaining to the pension of the transferred employees. The difference between the acquired defined benefit obligation and plan assets was recognized as part of 'Retirement expense' in 2021 and recognized as part of 'Due from related parties' in 2020.

The following tables summarize the components of the net benefit expense recognized in the statements of income and amounts recognized in the statements of financial position for the plan.

Net benefits expense follows:

	2021	2020
Current service cost	**₱10,366,088**	₱9,685,036
Loss on acquired retirement obligation	**1,589,873**	1,133,513
Net interest income	**(39,354)**	(658,708)
	₱11,916,607	₱10,159,841

The rollforward analysis of remeasurement gain (loss) on pension plan and remeasurement effects recognized in other comprehensive income follows:

	2021	2020
Balance as at beginning of year	**(₱3,568,559)**	₱4,545,187
Actuarial gains (losses)	**13,722,103**	(6,471,860)
Loss on plan assets	**(1,990,784)**	(1,641,886)
Remeasurement effects in other comprehensive income (before tax)	**11,731,319**	(8,113,746)
Deferred tax on remeasurement gain on pension plan	**(2,932,830)**	-
Remeasurement effects in other comprehensive income (after tax)	**8,798,489**	(8,113,746)
Balance as at end of year	**₱5,229,930**	(₱3,568,559)

The net amounts recognized in the statements of financial position included in "Other Assets" follow:

	2021	2020
Present value of DB obligation	**₱37,196,478**	₱40,168,694
Fair value of plan assets	**(46,059,488)**	(41,203,333)
	(₱8,863,010)	(₱1,034,639)

Changes in the present value of the defined benefit obligation follow:

	2021	2020
At January 1	**₱40,168,694**	₱22,702,224
Current service cost	**10,366,088**	9,685,036
Interest cost	**1,643,165**	1,094,800
Benefits paid	**(4,483,820)**	(2,018,950)
Actuarial loss (gain) arising from:		
Experience adjustments	**(6,897,599)**	3,434,963
Changes in financial assumptions	**(6,824,504)**	3,036,897
Acquired obligation	**3,224,454**	2,233,724
At December 31	**₱37,196,478**	₱40,168,694

Changes in the fair value of the plan assets follow:

	2021	2020
At January 1	**₱41,203,333**	₱34,696,553
Interest income included in net interest cost	**1,682,519**	1,753,508
Loss on plan assets	**(1,990,784)**	(1,641,886)
Actual contributions	**8,013,659**	7,313,897
Benefits paid	**(4,483,820)**	(2,018,950)
Acquired plan assets	**1,634,581**	1,100,211
At December 31	**46,059,488**	41,203,333
Actual return on plan assets	**(₱308,265)**	₱111,622

The principal assumptions used in determining the defined benefit obligation for the Company are as follows:

	2021	2020
Discount rate		
At January 1	**3.79%**	5.08%
At December 31	**5.06%**	3.79%
Annual rate of increase in compensation projection	**6.00%**	7.00%

The sensitivity analysis below showing estimated increase (decrease) in the retirement benefit obligation has been determined based on reasonably possible changes of each relevant significant assumption as at December 31, 2021 and 2020, assuming all other assumptions were held constant.

	Change in basis points	2021	2020
Discount rate	+100	**(₱2,187,336)**	(₱2,582,444)
	-100	**2,647,656**	3,137,928
Salary increase rate	+100	**2,649,986**	3,069,640
	-100	**(₱2,217,686)**	(2,576,611)

The retirement fund is co-owned by the Company, the Parent Company, and its affiliates, MIMTC and Manulife IT Delivery Center Asia (MITDC), which is in the form of a trust administered by a trustee bank. The carrying values of the plan assets as of December 31, 2021 and 2020, which approximate their fair values, are as follows:

	2021	2020
Cash	**₱6,157**	₱734,647
Investments in government debt securities	**502,873,089**	447,643,177
Accrued income receivable	**8,116,513**	6,602,092
Total	**510,995,759**	454,979,916
Liabilities	**40,054,122**	35,916,198
	₱470,941,637	₱419,063,718

As of December 31, 2021 and 2020, the plan assets allocated to the Company amounted to ₱46.06 million and ₱41.20 million, respectively.

The Company expects to contribute ₱9.17 million to the retirement plan in 2022.

Shown below is the maturity profile of the undiscounted benefit payments:

	2021	2020
Less than one year	**₱3,066,482**	₱6,393,734
One to less than five years	**18,203,236**	15,578,102
Five to less than ten years	**29,970,602**	27,431,508
Ten to less than fifteen years	**62,397,848**	65,228,209
Fifteen to less than twenty years	**77,625,186**	72,448,937
Twenty years and above	**72,143,043**	90,688,154

21. Income Taxes

The provision for income tax consists of:

	2021	2020
Current		
MCIT	**(₱6,230,352)**	₱–
RCIT	–	129,397,166
Final taxes on interest income	**24,168,306**	23,755,461
Deferred	**(3,519,669)**	(2,631,723)
	₱14,418,285	₱150,520,904

Implementation of CREATE Act
On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprise (CREATE) Act was signed into law to attract more investments and maintain fiscal prudence and stability in the Philippines. RA No. 11534 or the CREATE Act introduced reforms to the corporate income tax and incentives systems.

The law has a retroactive effective to reduce RCIT rate from 30% to 20% or 25%, as applicable, for domestic corporations effective July 1, 2020. Further, MCIT rate has been reduced to 1% for the period July 1, 2020 to June 30, 2023. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered as a substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 was considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e. 30% RCIT) for financial reporting purposes. On the other hand, the income tax paid and filed in the 2020 annual income tax return was recomputed based on the CREATE rules.

The impact of CREATE in measuring tax assets and liabilities as reflected in 2021 financial statements are summarized below:

	As reported as of December 31, 2020	Impact of Tax Rate Reduction to 25% as Reflected in 2021
Income tax payable	₱ 68,141,284	(₱10,783,097)
Deferred tax asset	115,920,579	(219,310)

As of December 31, 2021 and 2020, components of the net deferred tax assets and liabilities recognized in the statements of financial position follow:

	2021	**2020**
Deferred tax assets through profit or loss:		
Accrued expenses	**₱29,167,327**	₱26,165,065
Provision for IBNR	**17,215,869**	6,743,597
Lease liability	**2,050,297**	3,400,859
Provision for policyholder's dividends	**1,570,683**	1,423,157
Retirement expense in excess of actual contributions	**975,737**	–
Advance rent	**260,496**	–
Provision for doubtful accounts	**235,694**	210,202
Unrealized fair value loss on financial assets at FVPL	**52,270**	11,300,327
Deferred tax assets through OCI:		
Remeasurement loss on legal policy reserves	**4,079,155**	71,900,250
	₱55,607,528	₱121,143,457
Deferred tax liabilities through profit or loss:		
Unrealized fair value gain on financial assets at FVPL	**₱1,936,473**	₱2,462,446
Right-of-use assets	**1,573,931**	2,760,432
Impact of CREATE	**219,310**	–
Pension liability	**258,660**	–
Deferred tax liabilities through OCI:		
Remeasurement gain on pension plan	**2,932,830**	–
	6,921,204	5,222,878
	₱48,686,324	₱115,920,579

The Company recognized expense from deferred income tax directly to OCI amounting to ₱70.52 million in 2021 and benefit from deferred income tax directly to OCI amounting to ₱68.15 million in 2020.

Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used.

The reconciliation of tax expense computed based on the pretax income at the statutory tax rate to the provision for income tax follows:

	2021	2020
Income before income tax	**₱22,878,397**	₱528,275,472
Income tax expense at statutory income tax rate	**5,719,600**	158,482,642
Additions to (reductions in) income tax expense resulting from:		
Interest income - net of final tax	**(6,149,374)**	(12,154,110)
Nondeductible expenses	**25,411,845**	5,706,220
Exempt gain on sale of long-term investment in bonds	**–**	(1,513,848)
Impact of CREATE	**(10,563,786)**	–
	₱14,418,285	₱150,520,904

22. **Leases**

On January 1, 2020, the Company entered into a lease agreement for its office space. The lease contract is for a period of 4 years and 2 months and is renewable at the Company's option under certain terms and conditions. The lease contract can be pre-terminated at the Company's option any time after the start of the third year of the lease term subject to a 12-month prior notice. The lease contract includes an escalation clause, which is an annual rent increase of 5.00%. As of December 31, 2021, the Company has no contingent rent payable.

As of December 31, 2021 and 2020, the carrying amount of ROU asset follows:

	2021	2020
Cost		
Balance as at beginning of year	**₱15,012,874**	₱–
Addition	**–**	15,012,874
Balance as at end of year	**15,012,874**	15,012,874
Accumulated Amortization		
Balance as at beginning of year	**5,811,435**	–
Amortization	**2,905,718**	5,811,435
Balance as at end of year	**8,717,153**	5,811,435
Net Book Value	**₱6,295,721**	₱9,201,439

As of December 31, 2021 and 2020, the carrying amount of lease liability follows:

	2021	2020
Balance at beginning of year	**₱11,336,196**	₱–
Addition	**–**	15,012,874
Accretion of interest	**615,422**	1,773,027
Payments	**(3,750,429)**	(5,449,705)
Balance at end of year	**₱8,201,189**	₱11,336,196

The following are the amounts recognized in the 2021 and 2020 statement of income:

	2021	2020
Amortization expense of ROU assets	**₱2,905,717**	₱5,811,435
Interest expense on lease liabilities	**615,422**	1,773,027
	₱3,521,139	₱7,584,462

Shown below is the maturity analysis of the undiscounted lease payments as of December 31, 2021 and 2020:

	2021	2020
Within 1 year	₱3,937,957	₱3,750,429
More than 1 year to 2 years	4,134,858	3,937,957
More than 2 years to 3 years	694,656	4,134,858
More than 3 years to 4 years	–	694,656

23. Risk Management Policies

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing group wide policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall group and the individual business unit levels.

The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

Insurance Risk

The risk under insurance contract is the possibility of the occurrence of an insured event and the uncertainty of the amount and timing of the resulting claim. The principal risk the Company faces under such insurance contracts is that the actual claims and benefit payments or the timing thereof differs from expectations. This could occur due to any of the following:

Occurrence Risk

The possibility that the number of insured events will differ from those expected.

Severity Risk

The possibility that the cost of the events will differ from those expected.

Development Risk

The possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by the diversification of the risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The business of the Company comprises life insurance contracts. For contracts where death is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

These risks currently do not vary significantly in relation to the location of the risk insured by the Company while undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

There are no mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed benefits and fixed future premiums.

The Company has an objective to control and minimize insurance risk, and to reduce volatility of operating profits. The Company manages insurance risk through the following mechanism:

- Actuarial models based on past experience and statistical techniques aid in pricing decisions and monitoring claims patterns.
- Guidelines are issued for concluding insurance contracts and assuming insurance risks.
- Proactive claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.
- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well-diversified in terms of type and amount of risk, industry and geography.

Insurance risk is also affected by the policyholders' rights to terminate the contract, pay reduced premiums, refusal to pay premiums or to avail the guaranteed annuity option. Thus, the resultant insurance risk is subject to the policyholders' behavior and decisions.

The Company's concentration of insurance risk, before and after reinsurance, in relation to the type of insurance contract is as follows:

	2021	2020
Whole Life insurance		
Gross	**₱1,615,298,869**	₱1,430,525,318
Net	**687,180,086**	479,422,887
Endowment		
Gross	**5,212,819,037**	4,934,152,467
Net	**1,973,888,396**	1,652,856,143
Term policies		
Gross	**4,223,745,260**	3,283,301,185
Net	**2,455,548,908**	1,839,385,801
Variable unit-linked policies		
Gross	**94,321,251,594**	78,224,613,515
Net	**72,158,691,815**	55,159,188,413
Accident and health		
Gross	**1,912,707,652**	494,704,560
Net	**1,862,009,362**	440,222,634
Group insurance		
Gross	**46,034,841,488**	36,517,881,314
Net	**46,034,841,488**	36,517,881,314
Total		
Gross	**₱153,320,663,899**	₱124,885,178,359
Net	**125,172,160,056**	96,088,957,192

Underwriting Risk
Underwriting risk represents the exposure to loss resulting from actual policy experience adversely deviating from assumptions made in the product pricing. Underwriting risks are brought about by a combination of the following:

- Mortality risk - risk of loss arising due to policyholder's death experience being different than expected.
- Morbidity risk - risk of loss arising due to policyholder's 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 due to policyholder experiences (lapses and surrenders) being different than expected.

The Company's underwriting strategy is designed 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 limits are in place to enforce appropriate risk selection criteria.

The Company's retention limit on any single life is: (a) ₱3.00 million or $75,000 in the order of basic individual life, accelerated and standalone dread disease benefit, female benefits which include accelerated major disease benefit, accidental death benefit, accidental death and dismemberment, Maccimax benefit; or (b) 20% of the amount of the female accelerated dread disease ceded for female cancer benefit and female surgical benefit; or (c) ₱3.00 million or $75,000 of basic group life and group accidental death and dismemberment.

The Company is cognizant of the need to exercise good judgment in the selection and approval of both domestic and foreign companies participating in its reinsurance programs. While reinsurance arrangements do not relieve the Company from its direct obligations to its insured, an efficient and effective reinsurance program substantially limits the Company's exposure to potentially significant losses.

	2021		2020	
Type	**Number of Policies**	**Amount of Insurance**	Number of Policies	Amount of Insurance
Whole Life	**1,146**	**₱1,615,298,869**	785	₱1,430,525,318
Endowment	**9,039**	**5,212,819,037**	8,737	4,934,152,467
Term	**1,053**	**4,223,745,260**	796	3,283,301,185
Variable unit-linked	**78,888**	**94,321,251,594**	70,864	78,224,613,515
Accident and health	**680**	**1,912,707,652**	590	494,704,560
Group life	**79**	**46,034,841,488**	23	36,517,881,314
	90,885	**₱153,320,663,900**	81,795	₱124,885,178,359

There are no mitigating terms and conditions that reduce the insured risk accepted for contracts with fixed and guaranteed terms.

The insurance risk disclosed above is also affected by the contract holders' right to pay reduced or no future premiums, or to terminate the contract completely. As a result, the amount of insurance risk is also subject to contract holder behavior. On the assumption that the contract holder can make decisions rationally, overall insurance risk can be assumed to be aggravated by such behavior.

Where a derivative is a part of an insurance contract (i.e., embedded derivative), it is treated as an insurance contract and valued as part of the host contract. The valuation of these embedded derivatives are based on the expected future market conditions at maturity arising from variation in interest rates, foreign currency rates and price of equities.

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions 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 also be noted that movements in these assumptions are non-linear and the degree of impacts cannot easily be gleaned from these results.

	December 31, 2021				
	Change in assumptions	**Increase (decrease) in gross liabilities**	**Increase (decrease) in net liabilities**	**Increase (decrease) in profit before tax**	**Increase (decrease) in equity***
			(In Thousands)		
Mortality	**+10%**	**23,543**	**12,660**	**(12,660)**	**(12,660)**
Valuation interest rate	**-1%**	**777,565**	**329,490**	**(329,490)**	**(329,490)**
	+1%	**(777,565)**	**(329,490)**	**329,490**	**329,490**

**Impact on equity reflects adjustments for tax, when applicable*

	December 31, 2020				
	Change in Assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity*
			(In Thousands)		
Mortality	+10%	₱12,702	₱12,702	(₱12,702)	(₱12,702)
Valuation interest rate	-1%	860,939	284,456	(284,456)	(284,456)
	+1%	(860,939)	(284,456)	284,456	284,456

**Impact on equity reflects adjustments for tax, when applicable*

The carrying values of insurance contract liabilities as of December 31, 2021 and 2020 amounted to ₱56.94 billion and ₱45.15 billion, respectively (see Note 10).

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.

In addition, 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 premium receipts may be at 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 focus is to reinvest in proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company adopts an investment strategy to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations. The Company also adopts a strategy to produce cash flows required to meet maturing insurance liabilities. The Company invests in debt securities which are subject to declines in fair value. Generally, insurance regulations restrict the type of assets in which an insurance company may invest. When permitted by regulatory authorities and when deemed necessary to protect insurance assets including invested assets, from adverse movements of foreign currency exchange rates and interest rates, the Company may also enter into derivative transactions as end users.

The Company uses asset-liability matching 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 anticipated interest rate or other economic changes.

Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is the interest rate risk.

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 Company manages the level of credit risk it accepts through: a comprehensive group credit risk policy, setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; and monitoring compliance with credit risk policy and review of credit risk policy for refinance and changing environment.

The Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Such arrangements do not generally result in offset of assets and liabilities since transactions are usually settled on a gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may substantially change within a short period following the reporting date because the exposure is affected by transactions subject to the arrangement.

The Company issues unit-linked investment policies where the policyholder bears the investment risk on the assets held in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on unit linked financial assets. Loans to policyholders are granted against the surrender value of policies.

The table below shows the maximum exposure of the Company to credit risk for the components of the statements of financial position. The maximum exposure is shown net of impairment losses, but before the effect of mitigation through the use of master netting or collateral agreements.

	December 31, 2021		
	Non-Linked	**Unit-linked**	**Total**
Financial assets designated at FVPL			
Debt securities			
Government bonds	**₱–**	**₱7,656,521,935**	**₱7,656,521,935**
Corporate bonds	**–**	**278,974,320**	**278,974,320**
UITFs	**–**	**8,820,326,941**	**8,820,326,941**
Equity securities			
Common shares	**–**	**17,079,889,380**	**17,079,889,380**
Other equity securities	**–**	**14,719,337,538**	**14,719,337,538**
Cash in Banks	**–**	**2,305,231,413**	**2,305,231,413**
Accounts receivable	**–**	**584,514,472**	**584,514,472**
Accrued income	**–**	**58,905,432**	**58,905,432**
AFS financial assets			
Debt securities			
Government bonds	**2,503,668,014**	**–**	**2,503,668,014**
Corporate bonds	**44,092,565**	**–**	**44,092,565**
UITFs	**10,000,000**	**–**	**10,000,000**
Cash and cash equivalents		**–**	
Cash in banks	**1,644,964,300**	**–**	**1,644,964,300**
Short term deposits in banks	**454,103,162**	**–**	**454,103,162**
Loans and receivables			
Policy loans	**117,640,251**	**–**	**117,640,251**
Management Fee Receivable	**87,797,861**	**–**	**87,797,861**
Insurance receivable	**15,543,609**	**–**	**15,543,609**
Due from related parties	**1,306,386**	**–**	**1,306,386**
Security fund contribution	**141,244**	**–**	**141,244**
Other receivables	**20,995,452**	**–**	**20,995,452**
Accrued income			**-**
Accrued interests			
AFS debt financial assets	**26,367,462**	**–**	**26,367,462**
Cash and cash equivalents	**147,039**	**–**	**147,039**
	₱4,926,767,345	**₱51,503,701,431**	**₱56,430,468,776**

	December 31, 2020		
	Non-Linked	Unit-linked	Total
Financial assets designated at FVPL			
Debt securities			
Government bonds	₱–	₱7,826,593,179	₱7,826,593,179
Corporate bonds	–	534,789,824	534,789,824
UITFs	–	4,925,972,955	4,925,972,955
Equity securities			
Common shares	–	15,705,611,011	15,705,611,011
Other equity securities	–	8,904,405,666	8,904,405,666
Cash in Banks	–	791,254,018	791,254,018
Accounts receivable	–	557,769,300	557,769,300
Accrued income	–	70,351,932	70,351,932
AFS financial assets			
Debt securities			
Government bonds	2,343,135,674	–	2,343,135,674
Corporate bonds	44,371,676	–	44,371,676
Cash and cash equivalents			
Cash in banks	1,557,089,682	–	1,557,089,682
Short term deposits in banks	808,153,232	–	808,153,232
Loans and receivables			
Insurance receivable	7,812,751	–	7,812,751
Policy loans	120,777,574	–	120,777,574
Management Fee Receivables	69,204,448	–	69,204,448
Due from related parties	1,307,871	–	1,307,871
Security fund contribution	141,244	–	141,244
Other receivables	28,309,292	–	28,309,292
Accrued income		–	
Accrued interests			
AFS debt financial assets	20,074,407	–	20,074,407
Cash and cash equivalents	7,062	–	7,062
	₱5,000,384,913	₱39,316,747,885	₱44,317,132,798

The following tables provide information regarding the credit risk exposure of the Company as of December 31, 2021 and 2020 by classifying financial assets according to credit ratings of the counterparties:

	As of December 31, 2021			
	Neither past due nor impaired			
	Investment Grade	Non-investment Grade Satisfactory	Not Rated	Total
Financial assets designated at FVPL				
Debt securities				
Government bonds	**₱7,656,521,935**	**₱–**	**₱–**	**₱7,656,521,935**
Corporate bonds	**278,974,320**	**–**	**–**	**278,974,320**
UITFs	**–**	**–**	**8,820,326,941**	**8,820,326,941**
Equity securities				
Common shares	**–**	**–**	**17,079,889,380**	**17,079,889,380**
Other equity securities	**–**	**–**	**14,719,337,538**	**14,719,337,538**
Cash in Banks	**–**	**–**	**2,305,231,413**	**2,305,231,413**
Accounts receivable	**–**	**–**	**584,514,471**	**584,514,471**
Accrued income	**–**	**–**	**58,905,432**	**58,905,432**
AFS financial assets				
Debt securities				
Government bonds	**2,503,668,014**	**–**	**–**	**2,503,668,014**
Corporate bonds	**–**	**44,092,565**	**–**	**44,092,565**
UITFs	**–**	**10,000,000**	**–**	**10,000,000**
Cash and cash equivalents				
Cash in banks	**1,644,987,260**	**–**	**–**	**1,644,987,260**
Short term deposits in banks	**454,103,163**	**–**	**–**	**454,103,163**
Loans and receivables				
Policy loans	**–**	**–**	**117,640,251**	**117,640,251**
Management Fee Receivable	**–**	**–**	**87,797,861**	**87,797,861**
Insurance receivable	**–**	**15,543,609**	**-**	**15,543,609**
Due from related parties	**–**	**–**	**1,306,386**	**1,306,386**
Security fund contribution	**–**	**–**	**141,244**	**141,244**
Other receivables	**–**	**–**	**20,995,452**	**20,995,452**
Accrued income				
Accrued interests				
AFS debt financial assets	**26,367,462**	**–**	**–**	**26,367,462**
Cash and cash equivalents	**147,039**	**–**	**–**	**147,039**
	₱12,564,769,193	**₱69,636,174**	**₱43,796,086,369**	**₱56,430,491,736**

	As of December 31, 2020			
	Neither past due nor impaired			
	Investment Grade	Non-investment Grade Satisfactory	Not Rated	Total
Financial assets designated at FVPL				
Debt securities				
Government bonds	₱7,826,593,179	₱–	₱–	₱7,826,593,179
Corporate bonds	534,789,824	–	–	534,789,824
UITFs	–	–	4,925,972,955	4,925,972,955
Equity securities				
Common shares	–	–	15,705,611,011	15,705,611,011
Other equity securities	–	–	8,904,405,666	8,904,405,666
Cash in Banks	–	–	791,254,018	791,254,018
Accounts receivable	–	–	557,769,300	557,769,300
Accrued income	–	–	70,351,932	70,351,932
AFS financial assets				
Debt securities				
Government bonds	2,343,135,674	–	–	2,343,135,674
Corporate bonds	–	44,371,676	–	44,371,676
Cash and cash equivalents				
Cash in banks	1,557,089,682	–	–	1,557,089,682
Short term deposits in banks	808,153,232	–	–	808,153,232
Loans and receivables				
Policy loans	–	–	120,777,574	120,777,574
Management Fee Receivable	–	–	69,204,448	69,204,448
Insurance receivable	–	7,812,751	–	7,812,751
Due from related parties	–	–	1,307,871	1,307,871
Security fund contribution	–	–	141,244	141,244
Other receivables	–	–	28,309,292	28,309,292
Accrued income				
Accrued interests				
AFS debt financial assets	20,074,407	–	–	20,074,407
Cash and cash equivalents	7,062	–	–	7,062
	₱13,089,843,060	₱52,184,427	₱31,175,105,311	₱44,317,132,798

The credit quality of the financial assets was determined as follows:

a) *Cash and Cash Equivalents*
These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b) *Investment Securities*
In respect of investment securities pertaining to financial assets at FVPL and AFS financial assets, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer.

The Company uses Standard and Poor's credit ratings as basis to determine whether a security is investment grade or non-investment grade. In the financial market, securities with credit rating of at least BBB are considered as investment grade securities while securities with credit rating lower than BBB are considered as non-investment grade. Investment grade financial assets are assets which have strong capacity to meet the issuer's financial commitments and are unsusceptible to adverse effects of changes in economic conditions. Non-investment grade financial assets, on the other hand, are assets that are likely to be impaired in adverse economic conditions. However, no default or impairment is expected on these securities as these are issued by the Philippine Government.

All of the Company's securities are lodged in the Registry of Scripless Securities (RoSS) to mitigate misplacement of physical inventory of assets.

c) *Loans and Receivables*
The Company sets a maximum amount and limits that may be advanced to or placed with individual corporate counterparties which are set by reference to their long-term ratings.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed on the expiry of which the policy is either paid up or terminated.

Those accounts that are classified as not rated include UITFs, quoted equity securities, policy loans, inter-fund receivables, due from related parties, security fund contributions and other receivables for which the Company has not yet established a credit rating system.

As of December 31, 2021 and 2020, bulk of the Company's FVPL and AFS investments pertains to Philippine government securities (see Note 5).

The Company did not have other significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2020 and 2019.

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or inability to generate cash inflows as anticipated. The major liquidity risk confronting the Company is the daily operating cash requirements.

The Company manages liquidity through its liquidity risk policy, which determines what constitutes liquidity risk for the Company:

- Specify minimum proportion of funds to meet emergency calls
- Setting up contingency funding plans; specifies the sources of funding and the events that would trigger the plan and concentrates on funding sources
- Reporting of liquidity risk exposures and breaches to the monitoring authority
- Monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

The Company uses all its outstanding financial assets to manage liquidity risks.

The tables below analyze financial assets and financial liabilities of the Company into their relevant maturity groups based on the remaining periods at the reporting date to their contractual maturities or expected repayment dates.

	December 31, 2021						
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit-Linked	Total
Financial assets designated at FVPL							
Debt securities							
Government bonds	₱–	₱–	₱–	₱–	₱–	₱7,656,521,935	₱7,656,521,935
Corporate bonds	–	–	–	–	–	278,974,320	278,974,320
UITFs						8,820,326,941	8,820,326,941
Equity securities							
Common shares	–	–	–	–	–	17,079,889,380	17,079,889,380
Other equity securities	–	–	–	–	–	14,719,337,538	14,719,337,538
Cash in Banks	–	–	–	–	–	2,305,231,413	2,305,231,413
Accounts receivable	–	–	–	–	–	584,514,471	584,514,471
Accrued income	–	–	–	–	–	58,905,432	58,905,432
AFS financial assets[1]							
Debt securities							
Government bonds	246,634,863	248,469,727	659,886,402	2,901,630,562	–	–	4,056,621,554
Corporate bonds	2,014,965	21,147,930	18,973,912	9,486,778	–	–	51,623,585
UITFs	–	–	–	–	10,024,000	–	10,024,000
Cash and cash equivalents							
Cash in banks	1,644,987,260	–	–	–	–	–	1,644,987,260
Short-term deposits in banks[1]	454,468,590	–	–	–	–	–	454,468,590
Loans and receivables							
Policy loans[1]	127,340,686	–	–	–	–	–	127,340,686
Management Fee Receivables	87,797,861	–	–	–	–	–	87,797,861
Insurance receivable	15,543,609	–	–	–	–	–	15,543,609
Due from related parties	1,306,386	–	–	–	–	–	1,306,386
Security fund contribution	–	–	–	–	141,244	–	141,244
Other receivables	20,995,452	–	–	–	-	–	20,995,452
Accrued income							
Accrued interests							
AFS debt financial assets	26,367,462	–	–	–	–	–	26,367,462
Cash and cash equivalents	147,039	–	–	–	–	-	147,039
Total financial assets	2,627,604,173	269,617,657	678,860,314	2,911,117,340	10,165,244	51,503,701,430	58,001,066,158
Other financial liabilities							
Policy and contract claims payable	284,559,405	–	–	–	–	–	284,559,405
Policyholders' dividends	307,139,656	–	–	–	–	–	307,139,656
Insurance payables	1,275,947,416	–	–	–	–	–	1,275,947,416
Accounts payable and accrued expenses[2]							
Accrued expenses	375,847,266	–	–	–	–	–	375,847,266
Commissions payable	32,701,486	–	–	–	–	–	32,701,486
Held in IIFs:							
Accrued management fees	–	–	–	–	–	87,797,861	87,797,861
Due to related parties	409,312,547	–	–	–	–	–	409,312,547
Total financial liabilities	2,685,507,776	–	–	–	–	87,797,861	2,773,305,637
Net excess liquidity (deficit)	(₱57,903,603)	₱269,617,657	₱678,860,314	₱2,911,117,340	₱10,165,244	₱51,415,903,569	₱55,227,760,521

[1]*includes future interest*
[2]*excludes statutory liabilities*

	December 31, 2020						
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit-Linked	Total
Financial assets designated at FVPL							
Debt securities							
Government bonds	₱–	₱–	₱–	₱–	₱–	₱7,826,593,179	₱7,826,593,179
Corporate bonds	–	–	–	–	–	534,789,824	534,789,824
UITFs	–	–	–	–	–	4,925,972,955	4,925,972,955
Equity securities							
Common shares	–	–	–	–	–	15,705,611,011	15,705,611,011
Other equity securities	–	–	–	–	–	8,904,405,666	8,904,405,666

(Forward)

	December 31, 2020						
	Up to a year	1-3 years	3-5 years	Over 5 years	No Term	Variable Unit-Linked	Total
Cash in Banks	₱–	₱–	₱–	₱–	₱–	₱791,254,018	₱791,254,018
Accounts receivable	–	–	–	–	–	557,769,300	557,769,300
Accrued income	–	–	–	–	–	70,351,932	70,351,932
AFS financial assets[1]							
Debt securities							
Government bonds	–	–	90,241,167	3,866,144,264	–	–	3,956,385,431
Corporate bonds	–	19,626,840	11,611,741	22,472,550	–	–	53,711,131
Cash and cash equivalents							
Cash in banks	1,557,089,683	–	–	–	–	–	1,557,089,683
Short-term deposits in banks[1]	808,489,962	–	–	–	–	–	808,489,962
Loans and receivables							
Policy loans[1]	129,232,004	–	–	–	–	–	129,232,004
Management Fee Receivables	69,204,448	–	–	–	–	–	69,204,448
Insurance receivables	7,812,751	–	–	–	–	–	7,812,751
Due from related parties	₱1,307,871	₱–	₱–	₱–	₱–	₱–	₱1,307,871
Security fund contribution	–	–	–	–	141,244	–	141,244
Other receivables	28,309,292	–	–	–	–	–	28,309,292
Accrued income							
Accrued interests							
AFS debt financial assets	20,074,407	–	–	–	–	–	20,074,407
Cash and cash equivalents	7,062	–	–	–	–	–	7,062
Total financial assets	2,621,527,480	19,626,840	101,852,908	3,888,616,814	141,244	39,316,747,885	45,948,513,171
Other financial liabilities							
Policy and contract claims payable	90,276,492	–	–	–	–	–	90,276,492
Policyholders' dividends	272,417,177	–	–	–	–	–	272,417,177
Insurance payables	1,229,717,395	–	–	–	–	–	1,229,717,395
Accounts payable and accrued expenses[2]							
Accrued expenses	363,891,239	–	–	–	–	–	363,891,239
Commissions payable	29,840,329	–	–	–	–	–	29,840,329
Held in IIFs:							
Accrued management fees	–	–	–	–	–	69,204,446	69,204,446
Due to related parties	150,512,300	–	–	–	–	–	150,512,300
Total financial liabilities	2,136,654,932	–	–	–	–	69,204,446	2,205,859,378
Net excess liquidity	₱484,872,548	₱19,626,840	₱101,852,908	₱3,888,616,814	₱141,244	₱39,247,543,439	₱43,742,653,793

[1]*includes future interest*
[2]*excludes statutory liabilities*

As of December 31, 2021 and 2020, the debt securities held in IIFs have maturities beyond 5 years.

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

AFS debt securities are expected to be held indefinitely and would be realized based on the funding requirement of the Company. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

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

The Company manages market risk by minimizing the duration gap of its assets and liabilities, by ensuring that its liabilities are correctly matched to assets and by setting exposure limits.

The Company structures the levels of market risk it accepts through a group market risk policy that determines what constitutes market risk for the Company; basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument and geographical area; and sets out the net exposure limits by each counterparty or group of counterparties, geographical and industry segments.

The Company's principal transactions with insurance and investment policyholders comprise of unit-linked contracts in which the unit prices (i.e., obligation to the policyholders) are based on fair values of investments and other assets within the portfolio. Therefore, there is no foreign currency, equity and interest rate risk for these contracts. However, the Company's exposure to such contracts is the risk of volatility in asset management fees due to the impact of interest rate and market price movements on the fair value of assets held in the linked funds, on which investment management fees are based. Within this category of contracts, there are insurance contracts with minimum guaranteed death benefits that expose the Company to the risk of decline in the value of underlying investments as a result of change in interest rates.

The Company issues unit linked investment policies where the policyholder bears the investment risk on the assets held in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material market risk on unit linked financial assets.

Currency Risk
The Company holds foreign currency denominated assets and liabilities, thus, fluctuations on the foreign exchange rates can affect the financial position and cash flows of the Company. Exposure to currency risk arises mainly when financial assets and liabilities are denominated in a currency other than the Company's functional currency or will be denominated in such a currency in the planned course of business.

The Company invests in dollar bonds to meet its dollar obligations from its dollar insurance products. The following table shows the details of the Company's currency exposure in original currency (US$) and Philippine Peso equivalent (PHP) as of December 31, 2021 and 2020:

	2021		**2020**	
Assets	**US$**	**PHP**	US$	PHP
Cash and cash equivalents	$15,669,881	₱799,148,282	$16,827,226	₱808,093,874
Loans and receivables	3,315,221	169,072,931	6,550,261	314,563,184
	18,985,102	968,221,213	23,377,487	1,122,657,058
Policy and contract claims	734,217	37,444,315	119,519	5,739,661
Net exposures	$18,250,885	₱930,776,898	$23,257,968	₱1,116,917,397

Foreign currency risk is monitored and analyzed systematically. The Company's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Company believes in ensuring that its foreign currency is at all times within limits prescribed for companies who are engaged in the same type of businesses.

The exchange rate used to restate the Company's Philippine dollar-denominated assets and liabilities is ₱50.999 to $1 and ₱48.023 to $1 as of December 31, 2021 and 2020, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all variables held constant, of the Company's income before tax (due to changes in the fair value of monetary assets and liabilities).

	2021	
	Change in Variable	**Increase (Decrease) on Income before Tax**
USD	**5.84%**	**54,314,635**
	-5.84%	**(54,314,635)**

	2020	
	Change in Variable	Increase (Decrease) on Income before Tax
USD	5.16%	₱57,616,041
	-5.16%	(57,616,041)

The sensitivity analysis above has been determined assuming that the change in foreign currency rate has occurred at the reporting date and has been applied to the exposure to currency risk for financial instruments in existence at that date. The increase or decrease in basis points represents management's assessment of a reasonably possible change in currency rates over the period until the next annual reporting date.

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 rates. The Company's fixed rate investments in particular are exposed to such risk.

The Company manages fair value interest rate risk by minimizing the duration gap of its assets and liabilities.

The following tables show information relating to the Company's financial instruments as of December 31, 2021 and 2020 that are exposed to fair value interest rate risk presented by maturity profile (see Note 5):

	December 31, 2021					
Fixed Rate Instruments	**Interest Rate**	**<1 year**	**1 - 5 years**	**Over 5 years**	**No term**	**Total**
Financial assets						
AFS financial assets						
Debt securities						
Government bonds	**3.50% to 10.25%**	**₱120,214,800**	**₱436,241,511**	**₱1,947,211,704**	**₱–**	**₱2,503,668,014**
Corporate bonds	**3.92% to 6.08%**	**–**	**34,876,975**	**9,215,590**	**–**	**44,092,565**
UITFs	**–**	**–**	**–**	**–**	**10,000,000**	**10,000,000**
Loans and receivables						
Policy loans	**7.00% to 8.00%**	**117,640,251**	**–**	**–**	**–**	**117,640,251**
Short-term deposits	**0.35% to 0.45%**	**454,103,162**	**–**	**–**	**–**	**454,103,162**
Cash in banks	**0.125% to 0.45%**	**1,644,964,300**	**–**	**–**	**–**	**1,644,964,300**
		₱2,336,922,513	**₱471,118,485**	**₱1,956,427,294**	**₱10,000,000**	**₱4,774,468,292**

	December 31, 2020					
Fixed Rate Instruments	Interest Rate	<1 year	1 - 5 years	Over 5 years	No term	Total
Financial assets						
AFS financial assets						
Debt securities						
Government bonds	2.63%-10.25%	₱–	₱80,412,000	₱2,262,723,674	₱–	₱2,343,135,674
Corporate bonds	3.92%-6.08%	–	27,254,457	17,117,219	–	44,371,676
Loans and receivables						
Policy loans	7.00%-8.00%	120,777,574	–	–	–	120,777,574
Short-term deposits	0.63%-1.00%	808,153,231	–	–	–	808,153,231
Cash in banks	0.13%-0.25%	1,557,089,682	–	–	–	1,557,089,682
		₱2,486,020,487	₱107,666,457	₱2,279,840,893	–	₱4,873,527,837

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's other comprehensive income through the impact of AFS financial assets.

		Impact on OCI	
Currency	**Change in basis points**	**2021**	**2020**
Philippine Peso	+100	**(₱136,180,545)**	(₱233,912,783)
Philippine Peso	-100	**₱136,180,545**	233,912,783

The Company determined the reasonably possible change in interest rates by using the trend analyses of the Company's monthly sustainable portfolio yields for the past three years.

Equity Price Risk
The Company has no price risk exposure at year-end related to underlying equity financial assets of insurance investment funds. While the values of these equity financial assets will fluctuate as a result of changes in market prices, such fluctuation will not affect either the Company's income before tax or other comprehensive income.

Financial Instruments - Fair Value Measurement

Due to the short-term nature of cash and cash equivalents, insurance receivables, policy loans, accounts receivables held in IIFs, due from related parties, other receivables, accrued income, insurance payables, due to related parties, accounts payable and accrued expenses, their carrying values reasonably approximate their fair values at year-end.

The fair values of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets are determined by reference to quoted prices, at the close of business on the reporting date.

The carrying amounts of policyholders' dividends and premium deposit fund approximate fair values considering that these are due and demandable.

The following table shows the analysis of financial assets recorded at fair value and financial assets for which fair value is required to be disclosed by level of the fair value hierarchy:

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
AFS financial assets				
Debt securities	**₱2,503,668,014**	**₱–**	**–**	**₱2,503,668,014**
Government bonds	**44,092,565**	**–**	**–**	**44,092,565**
Corporate bonds	**–**	**10,000,000**	**–**	**10,000,000**
Financial assets designated at FVPL				
Debt securities held in IIFs				
Government bonds	**7,656,521,935**	**–**	**–**	**7,656,521,935**
Corporate bonds	**278,974,320**	**–**	**–**	**278,974,320**
UITFs	**8,820,326,941**	**–**	**–**	**8,820,326,941**
Equity securities held in IIFs		**–**	**–**	
Common stock	**17,079,889,380**	**–**	**–**	**17,079,889,380**
Other equity securities	**14,719,337,538**	**–**	**–**	**14,719,337,538**
Total	**₱51,102,810,693**	**₱10,000,000**	**–**	**₱51,112,810,693**

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
AFS financial assets				
Debt securities				
Government bonds	₱328,649,600	₱2,014,486,074	₱–	₱2,343,135,674
Corporate bonds	40,148,309	4,223,367	–	44,371,676
Financial assets designated at FVPL				
Debt securities held in IIFs				
Government bonds	4,742,933,147	3,083,660,032	–	7,826,593,179
Corporate bonds	430,290,168	104,499,656	–	534,789,824
UITFs	–	4,925,972,955	–	4,925,972,955
Equity securities held in IIFs				
Common stock	15,705,611,011	–	–	15,705,611,011
Other equity securities	8,904,405,666	–	–	8,904,405,666
Total	₱30,152,037,901	₱10,132,842,084	₱–	₱40,284,879,985

There were no changes in the valuation technique used by the Company. In 2021 and 2020, there have been no transfers between Level 1 and Level 2, and no transfers into and out of Level 3 fair value measurement.

24. Regulatory Requirements

Capital Management Framework

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

The Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous year.

The Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly the anticipated impact on the realistic financial position and revenue account of each business unit, are reported to the Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

Regulatory Framework

A substantial portion of the Company's long-term insurance business comprises policies where the investment risk is borne by policyholders. Risk attributable to policyholders is actively managed keeping in view their investment objectives and constraints.

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

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

Fixed Capitalization Requirements

On August 5, 2013, the President of the Philippines approved the Republic Act No. 10607, known as the "New Insurance Code" (Amended Code), which provides the new capitalization requirements of all existing insurance companies based on networth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required networth and the schedule of compliance per the Amended Insurance Code:

Networth	Compliance Date
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

On January 13, 2015, the IC issued CL No. 02-2015 which provide clarifications on the minimum capitalization requirements under Sections 194, 197, 200 and 289 of the Amended Code. It also supersedes DO No. 15-2012, DO No. 27-2006, CL No. 22-2008 and CL No. 26-2008. According to the CL, the minimum networth requirement would be ₱250,000,000 by December 31, 2013. The minimum networth shall be unimpaired at all times and shall increase to the amounts as follows:

Minimum Networth	**Compliance Date**
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2021 and 2020, the required minimum statutory net worth for the Company is ₱900 million. The Company has complied with the minimum net worth requirement.

Solvency Requirement
Under the revised Insurance Code (RA 10607), a life insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital, and net worth requirements as prescribed by the Commissioner. Such solvency requirements shall be based on internationally accepted solvency frameworks and accepted only after due consultation with the insurance industry association.

The amounts of estimated non-admitted assets, as defined in the Code, are as follows:

	2021 (Estimated)	2020 (Actual)
Loans and receivables	**₱28,202,663**	₱33,447,920
Property and equipment - net	**19,855,400**	27,464,418
Other assets	**99,058,109**	131,501,575
	₱147,116,172	₱192,413,913

The Excess Solvency shall be the excess of the value of its admitted assets (as defined under the same Code), over the amount of its liabilities and the required minimum capital/net worth.

If an insurance company fails to meet the minimum required capital, the Insurance Commission is authorized to suspend or revoke all certificates of authority granted to such company, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the Insurance Commission.

The final amount of the net worth as of December 31, 2021 can be determined only after the accounts of the Company have been examined by the Insurance Commission, specifically as to admitted and non-admitted assets as defined under the Code.

The following table shows the total equity available for Minimum Capital as of December 31:

	2021 (Estimated)	2020 (Actual)
Total admitted assets	**₱56,787,192,136**	₱45,036,497,216
Total liabilities	**54,905,859,415**	43,088,832,415
Total net worth	**1,881,332,721**	1,947,664,801
Required Minimum Capital / Net Worth	**900,000,000**	900,000,000
	₱981,332,721	₱1,047,664,801

Unimpaired Capital Requirement
In August 7, 2008, the Insurance Commission issued IMC 22-2008 providing that for purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statements of financial position should show that the net worth or equity is at least equal to the actual paid-up capital. The Company has complied with the unimpaired capital requirement.

Risk-Based Capital (RBC) Requirements
Pursuant to Section 194 of the Amended Insurance Code (R.A 10607), the Insurance Commission conducted a review of the current Risk Based Capital (RBC) Framework contained in Insurance Memorandum Circular Numbered 6-2006 and 7-2006 both dated October 5, 2006. On June 10, 2015, the Insurance Commission issued Circular Letter No. 2015-30 requiring all life and non life insurance companies to participate in parallel runs for the RBCQ15 (Quantitative Impact Study).

In 2016, IC issued Circular Letter No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, prescribes that all insurance companies must satisfy the minimum statutory RBC ratio of 100% and not fail the Trend Test as stated under Section 3 of this Circular. The RBC ratio of an insurance company shall be equal to the Total Available Capital (TAC) divided by the RBC requirement.

IC Circular Letter 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 95% level in 2017, 97.50% in 2018 and 99.50% in 2019 onwards.

The following table shows how the RBC ratio was determined as of December 31, 2021 and 2020:

	2021 (Estimated)	2020 (Actual)
Total Available Capital (TAC)	₱1,986,037,898	₱2,069,265,369
RBC requirement	307,579,688	375,086,739
RBC ratio	646%	552%

RBC2 Ratio is computed by dividing TAC with Required Capital. RBC TAC is computed by deducting non-admitted assets from PFRS Equity, plus sum of Excess capital from subsidiaries and 50% of PV dividends less IT equipment and Investment in subsidiaries. While Required Capital requirement of an insurance company is the capital that is required to be held appropriately to the risks an insurance company is exposed to. The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test as required by Circular 2016-68.

The final RBC ratio as of December 31, 2021 can only be determined after the accounts of the Company have been examined by IC.

Dividend Declaration
Under Section 201 of the Amended Code, no insurance company shall declare and distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements and except from profits attested in a sworn statement to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired : (a) the entire paid-up capital stock, (b) the solvency requirements, (c) in the case of life insurance corporations, the legal reserve fund, and (d) a sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes. If the Commissioner finds that any

such corporation has declared or distributed any such dividend in violation of this section, he may order such corporation to cease and desist from doing business until the amount of such dividend or the portion thereof in excess of the amount allowed under this section has been restored to said corporation.

25. Current and Non-Current classification

The Company's classification of its account is as follows:

	2021			2020		
	Current	**Non-current**	**Total**	Current	Non-current	Total
Assets						
Cash and cash equivalents	**₱2,099,163,215**	**₱–**	**₱2,099,163,215**	₱2,365,338,667	₱–	₱2,365,338,667
Insurance receivables	**15,543,609**	**–**	**15,543,609**	7,812,751	–	7,812,751
Financial assets						
Financial assets at fair value through profit or loss	**51,257,447,715**	**–**	**51,257,447,715**	39,032,175,594	–	39,032,175,594
Available-for-sale financial assets	**120,214,800**	**2,437,545,779**	**2,557,760,579**	–	2,387,507,350	2,387,507,350
Loans and receivables	**227,739,950**	**141,244**	**227,881,194**	219,599,185	141,244	219,740,429
Accrued income	**26,514,501**	**-**	**26,514,501**	20,081,469	–	20,081,469
Reinsurance assets	**5,336,318,528**	**–**	**5,336,318,528**	5,739,801,016	–	5,739,801,016
Property and equipment	**–**	**27,549,407**	**27,549,407**	–	27,464,418	27,464,418
Right-of-use asset	**–**	**6,295,721**	**6,295,721**	–	9,201,439	9,201,439
Deferred tax assets	**–**	**48,686,324**	**48,686,324**	–	115,920,579	115,920,579
Other assets	**13,401,894**	**19,686,701**	**33,088,595**	42,348,363	5,542,787	47,891,150
	59,096,344,212	**2,539,905,176**	**61,636,249,388**	47,427,157,045	2,545,777,817	49,972,934,862
Liabilities						
Insurance contract liabilities	**51,262,844,882**	**5,672,919,904**	**56,935,764,786**	38,835,063,573	6,311,293,103	45,146,356,676
Insurance payable	**1,275,947,416**	–	**1,275,947,416**	1,229,717,395	–	1,229,717,395
Policyholders' dividends	**307,139,656**	–	**307,139,656**	272,417,177	–	272,417,177
Accounts payable and accrued expenses	**656,259,713**	–	**656,259,713**	870,511,196	–	870,511,196
––Pension liability	–	–	–	–	–	–
Due to related parties	**409,312,547**	–	**409,312,547**	150,512,300	–	150,512,300
Lease liability	**3,535,756**	**4,665,433**	**8,201,189**	3,135,007	8,201,189	11,336,196
Income tax payable	**316,485**	–	**316,485**	68,141,284	–	68,141,284
	₱53,915,356,455	**₱5,677,585,337**	**₱59,592,941,792**	₱41,429,497,932	₱6,319,494,292	₱47,748,992,224

26. Reclassification

The company made the following reclassifications which have no effect on the reported results of operations:

a. In 2021, the Company changed its presentation of the assets and liabilities of the variable unit-linked (VUL) funds backing the VUL policies that it issued, from line-by-line consolidation to presentation as a single line item in the statements of financial position as "Financial assets at fair value through profit or loss (FVPL)."

b. Other insurance contract liabilities previously reported under "Insurance Contract Liabilities" were reclassified to be part of remittances not yet allocated under "Accounts Payable and Accrued Expenses."

c. Management fee receivable previously reported under interfund receivables were reclassified to a separate line item under "Loans and Receivables."

The impact of these changes to the December 31, 2020 statement of financial position after reclassifications to conform with the 2021 presentation follows:

	As at December 31, 2020		
	As previously reported	Reclassifications	After reclassification
Assets			
Cash and cash equivalents	₱3,156,592,685	(₱791,254,018)	₱2,365,338,667
Financial assets designated at FVPL	37,897,372,635	1,134,802,959	39,032,175,594
Loans and receivables – management fee receivable	–	69,204,448	69,204,448
Loans and receivables – interfund receivable	69,204,448	(69,204,448)	–
Loans and receivables – Accounts Receivable held in IIFs	340,168,277	(340,168,277)	–
Accrued income	90,433,401	(70,351,932)	20,081,469
Liability			
Insurance contract liabilities	(45,348,531,126)	202,174,450	(45,146,356,676)
Accounts payable and accrued expenses	(735,308,014)	(135,203,182)	(870,511,196)

27. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder is information on taxes and license fees paid or accrued in 2021.

Value Added Tax (VAT)
The Company is exempt from VAT being engaged in the business of life insurance under Section 4.109-1 (B)(e)(6) of Revenue Regulation No. 16-05 or otherwise known as the Consolidated VAT Regulations of 2005. However, it is subject to percentage tax under Section 123 of the Tax Code, as amended. Hence, it paid the amount of ₱24,241,445 in 2021 as percentage tax based on the amount reflected in the premiums on insurance contracts of ₱1,212,072,246.

Revenue Memorandum Circular (RMC) No. 30-08, as amended by RMC 59-08, provides that management fees, rental income, or income earned by the life insurance company from services which can be pursued independently of the insurance business activity are not subject to 5% (now 2%) premium tax but the same are treated as income for services that are subject to the imposition of VAT pursuant to Section 108 of the Tax Code, as amended.

a. Net Sales/Receipts and Output VAT declared in the Company's VAT returns for 2021:

	Net Sales/ Receipts	Output VAT
Taxable sales:		
Sale of services	₱787,895,732	₱94,547,488

b. The amount of Input VAT taxes claimed are broken down as follows:

Balance at January 1, 2020	₱903,625
Current year's purchases payments:	
Capital goods	685,714
Goods other than capital goods	898,727
Service paid	6,659,992
	8,244,433

(Forward)

Amortization of deferred input VAT on capital goods	(₱118,485)
Input VAT applied against Output VAT	(3,000,264)
Input VAT allocable to exempt sale	(4,825,510)
Balance at December 31, 2020	₱1,203,799

Documentary Stamp Tax (DST)
The DST paid or accrued amounted to 1,802,216 for life insurance premiums coverage and other documents included under 'Insurance and other taxes' in the Company's statement of income.

Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, license and permit fees lodged under 'General and administrative expenses' and 'Insurance and other taxes' in the Company's statement of income. Details consist of the following:

	Amount Paid
Included in 'Insurance and other taxes'	
Percentage taxes	₱24,241,445
Documentary Stamp Tax	1,802,216
Local Taxes	
Mayor's permit	4,166,904
Barangay clearance	2,000
Community tax certificate	10,500
	4,179,404
Total	₱30,223,065

Included in 'Taxes and licenses' under 'General and administrative expenses'

National Taxes	
BIR annual registration	₱27,500
Insurance commission license	1,839,787
	1,867,287
Other taxes and licenses	78,681
Total	₱1,945,968

Withholding taxes
The Company remitted the following withholding taxes for the tax period January to December 2021:

	Amount Remitted	Amount Outstanding (Overpayment)
Expanded withholding tax	₱106,361,616	₱8,437,167
Withholding tax on wages	73,747,561	(1,276,108)
Fringe benefits tax (included in 'Taxes and licenses')	3,246,864	995,490
Withholding VAT	1,000	-
	₱183,357,041	₱8,156,549

Assessments and Litigations

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