

COVER SHEET

for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

P	E	T	R	O	G	E	N		I	N	S	U	R	A	N	C	E		C	O	R	P	O	R	A	T	I	O	N
(A		W	h	o	l	i	y	-	o	w	n	e	d		S	u	b	s	i	d	i	a	r	y		o	f	
P	e	t	r	o	n		C	o	r	p	o	r	a	t	i	o	n)											

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

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M	a	n	d	a	l	u	y	o	n	g		C	i	t	y														

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's email Address

NA

Company's Telephone Number/s

8886-3888

Mobile Number

NA

No. of Stockholders

6

Annual Meeting (Month / Day)

2nd Tuesday of March

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Illuminada C. De Chavez

Email Address

icdechavez@petron.com

Telephone Number/s

8886 - 3888

Mobile Number

NA

CONTACT PERSON'S ADDRESS

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

PETROGEN INSURANCE CORPORATION

(A Wholly-owned Subsidiary of Petron Corporation)

FINANCIAL STATEMENTS
December 31, 2020 and 2019

With Independent Auditors' Report



R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Petrogen Insurance Corporation
SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Petrogen Insurance Corporation (the Company), a wholly-owned subsidiary of Petron Corporation, which comprise the statements of financial position as at December 31, 2020 and 2019, 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, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Firm Regulatory Registration & Accreditation:

PRC-BOA Registration No. 0003, valid until November 21, 2023

SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)

IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **APR 30 2021** TSIS

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

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- 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 audits.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

The supplementary information required for purposes of filing with the Bureau of Internal Revenue is presented by the management of the Company in a separate schedule. Such supplementary information is not a required part of the basic financial statements. Our opinion on the basic financial statements is not affected by the presentation of the supplementary information on a separate schedule.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS

Partner

CPA License No. 0102309

IC Accreditation No. 102309-IC, Group A, valid for 5-year audit period (2019 to 2023)

SEC Accreditation No. 102309-SEC, Group A, valid for one (1) year covering the audit of 2020 financial statements

Tax Identification No. 920-961-311

BIR Accreditation No. 08-001987-38-2019

Issued September 25, 2019; valid until September 24, 2022

PTR No. Mkt 8533906

Issued January 4, 2021 at Makati City

March 19, 2021

Makati City, Metro Manila

**BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION**

Date APR 30 2021 TSIS

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R.G. Manabat & Co.
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6787 Ayala Avenue, Makati City
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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders
Petrogen Insurance Corporation
SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City

We have audited the accompanying financial statements of Petrogen Insurance Corporation (the Company), a wholly-owned subsidiary of Petron Corporation, as at and for the year ended December 31, 2020, on which we have rendered our report dated March 19, 2021.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS

Partner

CPA License No. 0102309

IC Accreditation No. 102309-IC, Group A, valid for 5-year audit period (2019 to 2023)

SEC Accreditation No. 102309-SEC, Group A, valid for one (1) year covering the audit of 2020 financial statements

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Makati City, Metro Manila

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LARGE TAXPAYERS ASSISTANCE DIVISION

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Firm Regulatory Registration & Accreditation:

PRC-BOA Registration No. 0003, valid until November 21, 2023

SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)

IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



Petrogen Insurance Corporation

SMC Head Office Complex, # 40 San Miguel Avenue,
Mandaluyong City 1550
Tel. No. (632) 8-884-9200
Fax No. (632) 8-884-9163
VAT Reg. TIN No.: 005-034-674-000

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

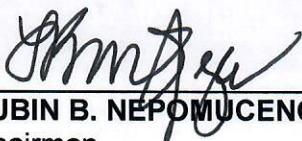
The Management of **Petrogen Insurance Corporation** (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2020 and 2019**, in accordance with the prescribed financial reporting framework indicated therein, 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.

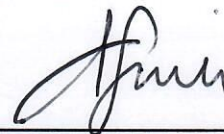
The Board of Directors (the "Board") is responsible for overseeing the Company's financial reporting process.

The Board reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.


LUBIN B. NEPOMUCENO
Chairman


EMMANUEL E. ERAÑA
President/CEO


ALBERTITO S. SARTE
Treasurer

Signed this 8th day of March 2021

**BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION**

Date **APR 30 2021** TSIS

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PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF FINANCIAL POSITION

December 31			
	Note	2020	2019
ASSETS			
Cash and cash equivalents	5, 6, 25	P639,138,672	P595,050,133
Insurance receivables	7, 25	568,830,374	1,764,095,621
Investments in debt securities	5, 8, 25	380,731,264	419,542,505
Deferred reinsurance premiums	9, 25	121,720,865	41,139,133
Property and equipment	10, 25	-	20,170
Deferred tax assets	21, 25	3,237,120	4,180,115
Other assets	11, 25	25,471,761	12,265,893
		P1,739,130,056	P2,836,293,570
LIABILITIES AND EQUITY			
Liabilities			
Insurance liabilities	12, 25	P612,740,234	P1,761,740,107
Due to reinsurers - net	13, 25	86,320,390	93,697,641
Accrued expenses and other liabilities	14, 25	28,666,251	28,988,365
Deferred reinsurance commission	0, 25	4,890,521	1,143,892
		732,617,396	1,885,570,005
Equity			
Capital stock	16	475,001,000	475,001,000
Contributed surplus		25,000,000	25,000,000
Remeasurement of investments in debt securities - net of deferred tax	8	2,986,286	2,101,394
Retained earnings	16	503,525,374	448,621,171
		1,006,512,660	950,723,565
		P1,739,130,056	P2,836,293,570

See Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **APR 30 2021** TSIS

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PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF INCOME

		Years Ended December 31	
	Note	2020	2019
UNDERWRITING INCOME			
Gross premiums written	12, 17	P906,811,779	P724,872,971
Premiums ceded	9, 17	(923,708,108)	(626,403,991)
Net premiums retained (ceded)		(16,896,329)	98,468,980
Decrease (increase) in reserve for unearned premiums - net of change in deferred reinsurance premiums	17	28,770,715	(30,350,325)
Net premiums earned	17	11,874,386	68,118,655
Reinsurance commission	0	12,879,140	13,636,796
GROSS UNDERWRITING INCOME		24,753,526	81,755,451
UNDERWRITING INCOME (EXPENSES) - Net	12	3,721,772	(22,165,983)
NET UNDERWRITING INCOME		28,475,298	59,589,468
INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD	18	27,542,910	33,216,194
OTHER INCOME - Net	19	27,558,276	27,751,623
INCOME AFTER INTEREST AND OTHER INCOME		83,576,484	120,557,285
GENERAL AND ADMINISTRATIVE EXPENSES	20	(14,085,735)	(15,357,290)
INCOME BEFORE INCOME TAX		69,490,749	105,199,995
INCOME TAX EXPENSE	21	(14,586,546)	(26,130,880)
NET INCOME		P54,904,203	P79,069,115

See Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date APR 30 2021 TSIS

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PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	<i>Note</i>	2020	2019
NET INCOME		P54,904,203	P79,069,115
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of investments in debt securities - net of deferred tax	8	419,633	10,128,384
Net change in fair value of investments in debt securities reclassified to profit or loss - net of deferred tax	8	465,259	444,156
		884,892	10,572,540
TOTAL COMPREHENSIVE INCOME		P55,789,095	P89,641,655

See Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **APR 30 2021** TSIS

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PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Capital Stock (Note 16)	Contributed Surplus	Remeasurement of Investments in Debt Securities - net of deferred tax (Note 8)	Retained Earnings (Note 16)	Total Equity
Balance at January 1, 2020	P475,001,000	P25,000,000	P2,101,394	P448,621,171	P950,723,565
Net income	-	-	-	54,904,203	54,904,203
Other comprehensive income	-	-	884,892	-	884,892
Total comprehensive income	-	-	884,892	54,904,203	55,789,095
Balance at December 31, 2020	P475,001,000	P25,000,000	P2,986,286	P503,525,374	P1,006,512,660
Balance at January 1, 2019	P350,000,000	P25,000,000	(P8,471,146)	P370,802,056	P737,330,910
Net income	-	-	-	79,069,115	79,069,115
Other comprehensive income	-	-	10,572,540	-	10,572,540
Total comprehensive income	-	-	10,572,540	79,069,115	89,641,655
Transactions with Owner of the Company					
Stock dividend	125,001,000	-	-	-	125,001,000
Documentary stamp tax (DST) on issuance of Capital Stock	-	-	-	(1,250,000)	(1,250,000)
Balance at December 31, 2019	P475,001,000	P25,000,000	P2,101,394	P448,621,171	P950,723,565

See Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date **APR 30 2021** TSIS

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PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income tax		P69,490,749	P105,199,995
Adjustments for:			
Increase (decrease) in reserve for unearned premiums - net of change in deferred reinsurance premiums	17	(28,770,715)	30,350,325
Interest income	18	(27,542,910)	(33,216,194)
Unrealized foreign exchange loss (gain) - net	19	3,809,097	(2,257,960)
Increase (decrease) in deferred reinsurance commission	0	3,746,629	(222,265)
Depreciation	10, 20	20,170	24,204
Operating income before working capital changes		20,753,020	99,878,105
Changes in operating assets and liabilities			
Decrease (increase) in:			
Insurance receivables		1,196,719,304	(1,674,581,571)
Other assets		(14,279,734)	2,302,355
Increase (decrease) in:			
Claims and losses payable		(1,202,524,360)	1,651,119,596
Due to reinsurers - net		(6,191,665)	47,315,913
Accrued expenses and other liabilities		(322,114)	11,456,283
Cash generated from (used in) operations		(5,845,549)	137,490,681
Income taxes paid		(13,543,399)	(27,782,838)
Net cash (used in) provided by operating activities		(19,388,948)	109,707,843
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investments in debt securities at amortized cost	8	(70,000,000)	(70,000,000)
Proceeds from maturity of investments in debt securities at amortized cost	8	70,910,000	40,000,000
Proceeds from maturity of investments in debt securities at FVOCI	8	37,450,000	-
Interest received		29,852,757	32,202,725
Net cash provided by investing activities		68,212,757	2,202,725
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of capital stock	16	-	125,001,000
Payment of DST on issuance of capital stock		-	(1,250,000)
Net cash provided by financing activities		-	123,751,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		48,823,809	235,661,568
NET EFFECT OF EXCHANGE RATE CHANGE: ON CASH AND CASH EQUIVALENTS		(4,735,270)	1,776,960
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		695,050,133	695,050,133
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	P639,138,672	P595,050,133

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date APR 30 2021 TSIS

See Notes to the Financial Statements.

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PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Petrogen Insurance Corporation (the Company) was incorporated in the Philippines on August 23, 1996. The Company is presently engaged in the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company has a corporate life of 50 years pursuant to its articles of incorporation. However, under the Revised Corporation Code of the Philippines, the Company shall have a perpetual corporate life.

The Company is a wholly-owned subsidiary of Petron Corporation (Petron), a company incorporated and domiciled in the Philippines and whose shares are listed in the Philippine Stock Exchange.

The Company's ultimate parent is Top Frontier Investments Holdings, Inc.

The Company has Certificate of Authority No. 2019/84-R issued by the Insurance Commission (IC) to transact in a non-life insurance business until December 31, 2021.

The Company's principal and registered office address is at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

2. Basis of Preparation

Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consists of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The accompanying financial statements of the Company as at and for the year ended December 31, 2020 were authorized for issue by the Board of Directors (BOD) on March 8, 2021.

Basis of Measurement

The financial statements of the Company have been prepared on a historical cost basis, except for financial assets classified as investments in debt securities at fair value through other comprehensive income (FVOCI), which is stated at fair value.

Functional and Presentation Currency

The financial statements are presented in Philippine peso, which is the Company's functional currency. All financial information is rounded off to the nearest peso, except when otherwise indicated.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION

Date APR 30 2021 **TSIS**

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Presentation of Financial Statements

The Company presents its statements of financial position in a manner that the presentation provides information that is reliable and relevant. An analysis regarding recovery or settlement within 12 months after reporting date (current) and more than 12 months after reporting date (non-current) is presented in Note 25.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in the financial statements, except for the changes in accounting policies as explained below.

Adoption of Amended Standards and Framework

The FRSC approved the adoption of a number of amended standards and framework as part of PFRS.

The Company has adopted the following PFRS effective January 1, 2020 and accordingly, changed its accounting policies in the following areas.

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:
 - a new chapter on measurement;
 - guidance on reporting financial performance;
 - improved definitions of an asset and a liability, and guidance supporting these definitions; and
 - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The amendments to the Conceptual Framework in PFRS had no significant impact on the financial statements.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of what is considered material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify the definition of what is considered material and its application by:

- (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
- (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
- (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
- (d) clarifying the explanatory paragraphs accompanying the definition; and
- (e) aligning the wording of the definition of material across PFRS and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The definition of material had no significant impact on the financial statements.

The Company has adopted the below PFRS effective June 1, 2020 and accordingly changed its accounting policy:

- COVID-19 Related Rent Concessions (*Amendment to PFRS 16 Leases*). The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient apply if:
 - the revised consideration is substantially the same or less than the original consideration;
 - the reduction in lease payments relates to payments due on or before June 30, 2021; and
 - no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

The amendments to the PFRS 16 Leases had no significant impact on the financial statements.

New and Amended Standards Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2020 and have not been applied in preparing these financial statements. Unless otherwise indicated, none of these are expected to have a significant effect on the Company's financial statements.

The Company will adopt the following new and amended standards on the respective effective dates:

Effective January 1, 2023

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). The amendments clarify that the classification a liability as current or non-current liability is based on the rights that exist at the end of the reporting period; specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; add guidance about lending conditions and how these can impact the classification; and include requirements for liabilities that can be settled using an entity's own instruments.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

Effective January 1, 2025

- PFRS 17, *Insurance Contracts*. This replaces the interim standard, PFRS 4 *Insurance Contracts*. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:
 - (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;
 - (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
 - (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2025. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9, *Financial Instruments* and PFRS 15, *Revenue from Contracts with Customers* on or before the date of initial application of PFRS 17.

Given the short tail nature of most of the insurance contracts issued, the Company is assessing if the simplified approach is applicable. The Company is currently performing detailed assessment on the impact of the adoption of the new standard in its financial statements.

Financial Assets and Financial Liabilities

Date of Recognition

Financial instruments are recognized in the statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction costs.

Classification and Subsequent Measurement

Financial Assets

The Company classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at FVOCI and financial assets at FVPL. The classification depends on the business model of the Company for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to initial recognition, unless the Company changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

Business Model Assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future salary activity.

Cash Flow Characteristics - Payments of Principal and Interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basis lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet these conditions. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI with or without recycling of cumulative gains and losses and financial assets at FVPL.

As at December 31, 2020 and 2019, the Company has financial assets classified at amortized cost and FVOCI.

Financial Assets at Amortized Cost. The Company measures financial assets at amortized cost if both of the following conditions are met:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate (EIR). Gains and losses are recognized in profit or loss when the financial asset is derecognized, modified or impaired.

Included in this category are: (a) cash in banks and cash equivalents; (b) insurance receivables, which arise primarily from premiums receivable and reinsurance recoverable on paid losses; (c) investments in debt securities at amortized cost; (d) interest receivables and security deposit under "Other assets" account; and (e) due from reinsurers, net of allowance for impairment losses, under "Due to reinsurers - net" account (Notes 6, 7, 8, 11 and 13).

Financial Assets at FVOCI. Investment in debt securities is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

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

At initial recognition of an investment in equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the fair value in OCI. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are reported as remeasurement of investment in debt securities as part of OCI. Cumulative net change in the fair value of debt securities measured at FVOCI is presented as "Remeasurement of investments in debt securities - net of deferred tax" under equity section of the statements of financial position. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt securities are recognized in profit or loss. When investment in debt securities at FVOCI is derecognized the related accumulated gains or losses previously reported in the statements of changes in equity are transferred to and recognized in profit or loss.

The Company's investments in debt securities at FVOCI are classified under this category (Note 8).

Equity instruments that are irrevocably designated at FVOCI are initially measured at fair value. Changes in the fair value of such equity instruments are recognized in equity section of the statements of financial position. Gains and losses are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends earned on holding an investment in equity instrument are recognized as dividend income when the right to receive the payment has been established. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the statements of changes in equity are never reclassified to profit or loss.

As at December 31, 2020 and 2019, the Company has no equity instruments at FVOCI.

Impairment of Financial Assets

The Company recognizes allowance for impairment losses on its financial assets at amortized cost and investments in debt securities at FVOCI.

Expected credit losses (ECLs) are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive), discounted at the EIR of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Company recognizes an allowance for impairment based on either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company recognizes lifetime ECL for receivables that do not contain significant financing component. The Company uses provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

The Company considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the restructuring of a financial asset by the Company on terms that the Company would not consider otherwise;

- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

Financial assets are written off when identified to be worthless after exhausting all collection efforts.

Financial Liabilities

The Company classifies its financial liabilities at initial recognition into the following categories: financial liabilities at FVPL and other liabilities. The Company determines the classification of its financial liabilities at initial recognition, and were allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

As at December 31, 2020 and 2019, the Company has no financial liabilities at FVPL.

Other Financial Liabilities

This category pertains to financial liabilities that are not designated or classified at FVPL.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered integral part of the EIR of the liability.

Included in this category are: (1) claims and losses payable presented as part of "Insurance liabilities" account; (2) due to reinsurers (gross of due from reinsurers); and (3) accrued expenses and other liabilities (excluding payable to regulatory agencies and deferred credits) (Notes 12, 13 and 14).

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset but transferred control of the asset, the Company continues to recognize the asset to the extent of the Company's continuing involvement. 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 pay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Whereas 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 as exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Classification of Financial Instruments between Debt and Equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are changed directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the 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 or in part, the amount separately determined as the fair value of the liability component on the date of issue.

Fair Value Measurement

Determination of Fair Values

The fair values of financial instruments traded in active markets at reporting date are based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair values are determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flows method, price comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

'Day 1' Profit

Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit.

Fair Value Hierarchy

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 prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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 the categorization at the end of each reporting period.

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements 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 realize the financial asset and settle the financial liability simultaneously. This is not generally the case with master netting agreements, and the related financial assets and financial liabilities are presented gross in the statements of financial position.

Property and Equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the cost of day-to-day servicing.

The initial cost of property and equipment comprises of its construction cost or purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period these costs are incurred. Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the items can be measured reliably.

Depreciation, which commences when the assets are available for their intended use, is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Office equipment	10
Electronic data processing (EDP) equipment	3

The remaining useful lives, residual values and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

The carrying amounts of the property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Impairment of Non-financial Assets

The carrying amounts of non-financial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, 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 costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs to sell. Value in use is the present value of future cash flows expected to be derived from an asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment loss is recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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

As at December 31, 2020 and 2019, no impairment loss has been recognized on the Company's property and equipment (Note 10).

Insurance Contracts

Insurance contract is an agreement whereby one party called the insurer undertakes, for a consideration paid by the other party called the insured, promises to pay money, or its equivalent or to do some act valuable to the latter, upon happening of a loss, liability or disability arising from an unknown or contingent event.

Classification of Insurance and Investment Contracts

The Company issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes the possibility of having to pay benefits on the occurrence of an insured event. The Company may also transfer insurance risk in insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10.00% more than the benefits payable if the insured event did not occur. Insurance contracts can also expose the insurer to financial risks. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts are those contracts that transfer financial risk with no significant 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 the period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

In 2020 and 2019, the Company did not issue any investment contracts.

Insurance Contract Receivables and Payables

Insurance contract receivables and payables are recognized when contracts are entered into and premiums are charged. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes that impairment loss in profit or loss.

Claims and Losses Payable

Liabilities for unpaid claims and losses and claim adjustment expenses relating to insurance contracts are accrued when insured events occur. The liability is derecognized when the contract is discharged or cancelled.

The liabilities for claims are based on the estimated ultimate cost of settling the claims. The method of determining the expected ultimate cost of claims reported at reporting date are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and difference between estimates and payments for claims are recognized as income or expense in the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in profit or loss in the period the recoveries are determined. Recoverable amounts from reinsurers are presented as part of "Insurance receivables" account in the statements of financial position.

Incurred but Not Yet Reported (IBNR) Claims

IBNR is based on the estimated ultimate cost of all claims incurred but not reported at the end of the reporting period. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. This liability is discounted for the time value of money. The liability is derecognized when the contract is discharged, cancelled or has expired.

Liability Adequacy Test

At each reporting date, liability adequacy test (LAT) is performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of future cash flows, claims handling cost and policy administrative expenses. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy arising from the test is immediately charged to profit or loss by establishing an unexpired risk provision for losses.

The Company's insurance contract liabilities are composed of premium liabilities and claims liabilities. Premium liabilities are calculated as the higher of reserve for unearned premiums and the unexpired risk reserve for each line of business. Unexpired risk reserve is an estimate of total liability including expenses, at a designated level of confidence, in respect of the risk after the valuation date of the policies written prior to that date including expenses for policy management and claims settlement costs. If the unexpired risk reserve is higher than the reserve for unearned premiums, the excess is set up as an additional insurance reserves on top of reserve for unearned premiums.

While claims liabilities are composed of claims and losses payable and IBNR, significant accounting policies are disclosed in the preceding section of the notes to the financial statements.

Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets primarily include balances due from reinsurance companies. Amounts due from reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts.

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

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

Reinsurance assets and liabilities are derecognized when the contractual right is extinguished or expired or when the contract is transferred to another part.

Equity

Capital Stock

Capital stock is composed of common shares, determined using the nominal value of shares that have been issued.

Contributed Surplus

Contributed surplus represents contributions of the stockholders to the Company in compliance with the requirements of the Insurance Code.

Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Retained earnings may also include effect of changes in accounting policy as may be required by the transitional provision of the standards. Any transaction costs associated with the issuance of shares are deducted from retained earnings.

Dividend distribution to the Company's shareholders is recognized pursuant to the stock dividend declaration by the BOD, upon receipt of the Insurance Commission's approval. The Company intends to declare dividends subject to availability of retained earnings and operational and regulatory requirements.

Revenue Recognition

The Company recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The Company's revenue streams arising from insurance contracts falls under PFRS 4 while interest income falls under PFRS 9 and other income under PFRS 15. The following specific criteria must also be met before revenue is recognized:

Premium Income

Gross premiums written comprise the total premiums for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums payable for reinsurance contracts are recognized as a contra-income account upon recognition of related premiums and presented as "Premiums ceded" in profit or loss.

Premiums from insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired periods of the policies at the reporting date is accounted for as "Reserve for unearned premiums" account and presented under "Insurance liabilities" in the statements of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at each reporting date is accounted for as "Deferred reinsurance premiums" and shown in the assets section of the statements of financial position. The net changes in these accounts between reporting dates are credited to or charged against income as "Increase or decrease in reserve for unearned premium - net of change in deferred reinsurance premiums" account in the profit or loss.

Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

Reinsurance Commissions

Reinsurance commissions earned from reinsurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as "Deferred reinsurance commission" and presented in the liabilities section of the statements of financial position.

Interest Income Calculated Using the Effective Interest Method

Interest income for all interest-bearing financial instruments is recognized in profit or loss using the effective interest method. Interest income is recognized at gross amount of the tax withheld.

Other Underwriting Income

Other underwriting income is recognized in the period when benefits are earned.

Service Fees

Service fees pertain to services provided by the Company other than underwriting services. Service fees are recognized over a period of time as the Company delivers services to the customer(s).

No Claim Bonus and Profit Commission

No claim bonus and profit commission are the amounts received from reinsurers in the event of no claims made throughout the coverage period. No claim bonus and profit commission is recognized at a point in time when there is a reasonable degree of certainty that the incidental economic benefit will flow to the Company that can be measured reliably.

Cost and Expense Recognition

Cost and expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized when incurred.

Underwriting Expenses

Underwriting expenses consist of benefits and claims incurred during the year and loss adjustments. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether throughout the period of use:

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

As a Lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company's lease agreement did not contain a specified asset thus, not considered as a lease contract under the provisions of PFRS 16. Consequently, the Company did not recognize right-of-use assets and lease liabilities on such lease contract. Accordingly, the Company recognized lease payments as expense on a straight-line basis over the lease term.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Operating Lease

Company as Lessee

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over lease term.

Foreign Currency Transactions and Translation

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates at reporting date; income and expenses are translated using the average rate for the year. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of financial assets at FVOCI, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in OCI.

Taxes

Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - excess of Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of excess of MCIT over RCIT and 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
- with respect to 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 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 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
- with respect to 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.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date, and reflects uncertainty related to income taxes, if there is any.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

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 taxes relate to the same taxable entity and the same taxation authority.

Final Tax

Interest income from cash in banks, cash equivalents and debt securities at amortize cost and FVOCI, which is subject to final withholding tax, is presented at gross amounts while taxes paid or withheld are included in 'Income tax expense' account in the profit or loss.

Value-added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

Related Parties

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

Provisions

Provisions are recognized when: a) the Company has a present obligation (legal or constructive) as a result of past event; b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to financial statements 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 in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Company's financial position at reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements at the reporting date. However, actual results may differ from such judgments and estimates.

Judgments, estimates and assumptions 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. Revisions are recognized in the period in which the judgments, estimates and assumptions are revised and in any future period affected.

Judgments

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

Operating Lease Commitments - Company as Lessee. The Company had determined that all the significant risks and rewards for leased property are retained by the lessor.

Rent expense recognized in the statements of income amounted to P450,770 and P454,214 in 2020 and 2019, respectively (Notes 20, 22c and 24).

Classification of Financial Instruments

The Company exercises judgment in classifying financial instruments in accordance with PFRS 9. The Company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

The classification and fair values of financial assets and financial liabilities are presented in Note 5.

The Company uses its judgment in determining the classification of financial assets based on its business model (Note 3) in which assets are managed and their cash flow characteristics.

The Company determines that the business model for financial assets at amortized cost is held to collect contractual cash flows and meets the solely principal and interest criterion as of December 31, 2020 and 2019. Other financial assets are classified as financial assets at FVOCI based on the characteristics of the contractual cash flows of the instruments.

Determination of Fair Values of Financial Instruments

Where the fair values of financial assets and liabilities recorded in the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

The Company uses judgment to select from a variety of valuation models and makes assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

Determining whether the Company is Acting as Principal or an Agent

The Company assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- (a) the Company have the primary responsibility to provide specified goods to the end consumers; and
- (b) the Company have discretion to establish prices for specified goods.

If the Company has determined it is acting as a principal, it recognizes revenue on a gross basis with the amount remitted to the other party being accounted as part of general and administrative expenses. If the Company has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Company assessed its revenue arrangements and concluded that it is acting as principal in all arrangements.

Estimates and Assumptions

Estimation of Allowance for Impairment of Financial Assets

The Company measures allowance for impairment losses on financial assets at FVOCI and at amortized cost based on the assumptions about risk of default and expected credit loss rates. When estimating the expected credit loss, the Company uses judgments in making these assumptions based on the Company's past experience and historical data, existing market conditions as well as forward looking estimates. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease assets.

As at December 31, 2020 and 2019, the Company assessed that there are no impairment indicators for its financial assets at FVOCI and financial assets at amortized cost (Note 8).

Valuation of Claims and Losses Payable and IBNR

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 such claims. Estimation of the ultimate cost of claims is a complex process and can be evaluated with the aid of the adjuster's estimates.

The Company considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the ultimate liability arising from claims made under insurance contracts as the major uncertainties may differ significantly. With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected including reserve for outstanding losses and related insurance balances.

In estimating the ultimate cost of IBNR, the Company adopted the Incurred Chain Ladder Method, the Paid Chain Ladder Method, the Bornhuetter-Ferguson Incurred Approach and the Bornhuetter-Ferguson Paid Approach, in weighted averages, to predict the future claims settlement.

At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to claims and losses payable and IBNR claims.

As at December 31, 2020 and 2019, claims and losses payable and IBNR claims amounted to P485.82 million and P1.69 billion, respectively (Note 12).

Reasonableness of Insurance Policy Reserves

The LATs are performed to ensure the adequacy of the insurance contract liabilities using the current best estimates of the future contractual cash flows and claims handling and administration expenses.

As at December 31, 2020 and 2019, the Company's reserve for unearned premiums amounting to P126.92 million and P75.11 million, respectively, and IBNR of P10.04 million in 2020 and P8.15 million in 2019 are adequate in using the best estimates assumptions (Note 12).

Realizability of Deferred Tax Assets

The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets is based on the projected taxable income in the following periods.

As at December 31, 2020 and 2019, deferred tax assets amounted to P3.24 million and P4.18 million, respectively (Note 21).

5. Insurance and Financial Risks Management Objectives and Policies

Objectives and Policies

The primary objective of the Company's insurance and financial risk management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of the financial performance objectives, including failing to exploit opportunities.

Governance

Key management recognizes the critical importance of having efficient and effective risk management system.

The Company's risk management involves the close cooperation of the Company's BOD in developing objectives, policies and processes on insurance, liquidity, credit and market risks and the Company's management of capital.

Regulatory Framework

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

The risks and the way the Company manages insurance and financial risks are set out below:

Insurance Risk

The major classes of general insurance written by the Company include fire, marine, casualty and motor. Risks under these policies usually cover a twelve-month duration.

The risk under insurance contracts is the possibility of occurrence of an insured event and uncertainty of the amount and timing of resulting claims. The principal risk the Company faces under such contracts is that the actual claims might exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

- *Occurrence Risk* - the possibility that the number of insured events reported in a particular period 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 diversification of 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 a change in any subset of the portfolio. The variability of risk is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Company comprises short-term nonlife insurance contracts. For general insurance contracts, claims are often affected by natural disasters, calamities, etc. 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.

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

- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security; and
- 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.

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented as part of "Insurance receivables" in the statements of financial position.

The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. Amounts of estimates at the accident year are based from adjusters' report. Other estimates are based on reasonable approximation after an evaluation of reported claims. Adjustment to the loss reserves is made on the year the ultimate cost of claim becomes more certain. Reserves are either decreased or increased depending on the estimates.

The Company's exposure to insurance risk as at December 31, 2020 and 2019 is as follows:

	Note	2020	2019
Claims and losses payable and IBNR	12	P485,818,384	P1,686,629,274
Less reinsurance recoverable on unpaid losses and IBNR	7, 12	478,820,692	1,645,025,690
		P6,997,692	P41,603,584

The concentration of claims and losses by type of contract is as follows:

	2020		
	Claims and Losses Payable and IBNR	Reinsurance Recoverable on Unpaid Losses and IBNR	Net
	(Note 12)	(Notes 7, 12)	
Engineering	P477,167,155	P473,295,468	P3,871,687
Motor	7,406,301	-	7,406,301
Marine	1,076,705	1,029,403	47,302
Others	595,198	595,198	-
Fire	(523,469)	3,831,137	(4,354,606)
Accident	96,494	69,486	27,008
	P485,818,384	P478,820,692	P6,997,692

	2019		
	Claims and Losses Payable and IBNR	Reinsurance Recoverable on Unpaid Losses and IBNR	Net
	(Note 12)	(Notes 7, 12)	
Engineering	P1,624,440,642	P1,596,151,801	P28,288,841
Fire	52,133,583	46,743,920	5,389,663
Motor	7,489,676	-	7,489,676
Marine	1,664,599	1,368,551	296,048
Accident	476,206	344,851	131,355
Others	424,568	416,567	8,001
	P1,686,629,274	P1,645,025,690	P41,603,584

Key Assumptions

The principal assumptions underlying the estimates made by the Company depends on the past claims experience and industry levels. This includes assumptions in respect to average claims costs, inflation factor and handling cost. Judgment is used to assess the extent to which external factors such as judicial decision and government legislation affect the estimates.

Sensitivity Analysis

The Company's claims provision is sensitive to the previous key assumptions. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, among others is not possible to quantify.

In accordance with the claims development methodology, claims and losses over a period of time on a gross and net reinsurance basis were developed as follows:

Accident Year	2020						Total
	2015 and Prior Years	2016	2017	2018	2019	2020	
Incremental claims settlements:							
At the end of accident year	P249,331,220	P68,948,123	P61,536,550	P24,772,901	P2,389,278,893	P4,738,960	P4,738,960
One year later	255,808,355	85,807,927	62,280,491	25,571,353	1,267,044,854	-	1,267,044,854
Two years later	260,330,359	85,807,927	62,297,843	25,596,404	-	-	25,596,404
Three years later	260,635,306	85,807,927	77,517,096	-	-	-	77,517,096
Four years later	262,415,475	85,807,927	-	-	-	-	85,807,927
Five to ten years later	262,415,475	-	-	-	-	-	262,415,475
Cumulative claims incurred including IBNR	262,415,475	85,807,927	77,517,096	25,596,404	1,267,044,854	4,738,960	1,723,120,716
Cumulative claims and losses paid	262,086,133	85,196,060	13,980,070	7,311,479	865,379,213	3,349,377	1,237,302,332
Claims and losses payable and IBNR	329,342	611,867	63,537,026	18,284,925	401,665,641	1,389,583	485,818,384
Reinsurance recoverable on unpaid losses	329,342	611,867	62,608,285	18,021,551	395,880,079	1,369,568	478,820,692
Net exposure	P -	P -	P928,741	P263,374	P5,785,562	P20,015	P6,997,692

Accident Year	2019						Total
	2014 and Prior Years	2015	2016	2017	2018	2019	
Incremental claims settlements:							
At the end of accident year	P239,761,433	P9,569,787	P68,948,123	P61,536,550	P24,772,901	P2,389,278,893	P2,389,278,893
One year later	245,748,873	10,059,482	85,807,927	62,280,491	25,571,353	-	25,571,353
Two years later	250,250,736	10,079,623	85,807,927	62,297,843	-	-	62,297,843
Three years later	250,555,683	10,079,623	85,807,927	-	-	-	85,807,927
Four years later	252,335,852	10,079,623	-	-	-	-	10,079,623
Five to ten years later	252,335,852	-	-	-	-	-	252,335,852
Cumulative claims incurred including IBNR	252,335,852	10,079,623	85,807,927	62,297,843	25,571,353	2,389,278,893	2,825,371,491
Cumulative claims and losses paid	252,202,112	9,884,021	85,196,060	13,980,070	7,311,479	770,168,475	1,138,742,217
Claims and losses payable and IBNR	133,740	195,802	611,867	48,317,773	18,259,874	1,619,110,418	1,686,629,274
Reinsurance recoverable on unpaid losses	-	-	-	42,054,407	15,542,674	1,587,428,609	1,645,025,690
Net exposure	P133,740	P195,802	P611,867	P6,263,366	P2,717,200	P31,681,809	P41,603,584

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

Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and reinsurance 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.

There has been no change to the Company's exposure to financial risks or the manner in which it manages and measures the risks since the last financial year.

Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Company regulates and extends credit only to qualified and credit-worthy related entities and other counterparties, and continuously monitors defaults of its counterparties, identified either individually or by group, and incorporate this information into its credit risk controls.

As at December 31, 2020 and 2019, the Company's concentration of credit risk arises from its cash and cash equivalents (except cash on hand) and investments in debt securities amounting to P1,019.82 million and P1,014.54 million, respectively, which represent 89.25% in 2020 and 87.98% in 2019 of the Company's financial assets (Notes 6 and 8).

The maximum credit risk exposure of the Company's financial assets is as summarized below:

	Note	2020	2019
Cash and cash equivalents ¹	6, 25	P639,092,981	P595,000,133
Insurance receivables ²	7, 25	90,009,682	119,069,931
Investments in debt securities	8, 25	380,731,264	419,542,505
Interest receivable ³	11, 25	2,594,256	3,668,122
Security deposit ³	11, 25	180,733	180,733
Due from reinsurers ⁴	13	30,033,556	15,651,238
		P1,142,642,472	P1,153,112,662

¹ Excluding cash on hand amounting to P45,691 in 2020 and P50,000 in 2019

² Excluding reinsurance recoverable on unpaid losses, reinsurers' share on IBNR and gross of allowance for impairment loss

³ Included under "Other assets" account

⁴ Included under "Due to reinsurers - net" account and gross of allowance for impairment loss

The credit risk for cash and cash equivalents and investments in debt securities at FVOCI is considered negligible, since the counterparties are reputable entities which are considered low risk. The credit quality of these financial assets is therefore considered as high grade. For the determination of credit risk, cash and cash equivalents does not include cash on hand amounting to P0.05 million as at December 31, 2020 and 2019.

The Company uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment High Grade - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through the public markets and/or credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage. Financial assets classified as investment high grade are either current or past due, and not impaired.

Non-investment Grade - Satisfactory - This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations, for individuals into business or for corporate entities. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

The table below presents the Company's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	2020				
	Financial Assets at Amortized Cost				
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired	Financial Assets at FVOCI	Total
Cash and cash equivalents ¹	P639,092,981	P -	P -	P -	P639,092,981
Insurance receivables ²	90,009,682	-	-	-	90,009,682
Investments in debt securities	104,647,868	150,278,447	-	125,804,949	380,731,264
Interest receivable ³	2,594,256	-	-	-	2,594,256
Security deposit ³	-	180,733	-	-	180,733
Due from reinsurers ⁴	30,033,556	-	-	-	30,033,556
	P866,378,343	P150,459,180	P -	P125,804,949	P1,142,642,472

¹ Excluding Cash on hand amounting to P45,691

² Excluding reinsurance recoverable on unpaid losses and IBNR share and gross of allowance for impairment loss

³ Included under "Other assets" account

⁴ Included under "Due to reinsurers - net" account and gross of allowance for impairment loss

	2019				
	Financial Assets at Amortized Cost			Financial Assets at FVOCI	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired		
Cash and cash equivalents ¹	P595,000,133	P -	P -	P -	P595,000,133
Insurance receivables ²	119,069,931	-	-	-	119,069,931
Investments in debt securities	70,936,964	185,670,073	-	162,935,468	419,542,505
Interest receivable ³	3,668,122	-	-	-	3,668,122
Security deposit ³	-	180,733	-	-	180,733
Due from reinsurers ⁴	15,651,238	-	-	-	15,651,238
	P804,326,388	P185,850,806	P -	P162,935,468	P1,153,112,662

¹ Excluding Cash on hand amounting to P50,000

² Excluding reinsurance recoverable on unpaid losses and IBNR share and gross of allowance for impairment loss

³ Included under "Other assets" account

⁴ Included under "Due to reinsurers - net" account and gross of allowance for impairment loss

The aging of insurance receivables (excluding reinsurance recoverable on unpaid losses) is as follows:

	Note	2020	2019
Premiums Receivables			
Current		P21,853,869	P116,330,510
Past due but not impaired:			
31 - 60 days		3,429,316	816,622
61 - 90 days		95,871	15,766
More than 90 days		10,707,726	1,023,451
	7	P36,086,782	P118,186,349

The reinsurance recoverable on paid losses amounted to P53.92 million and P0.88 million in 2020 and 2019, respectively (Note 7) is more than 90 days past due and is unimpaired.

The Company provides allowance for impairment based on either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. The allowance is evaluated by management on the basis of reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company has rebutted the presumption that default does not occur later than when a financial asset is 90 days past due, based on the reasonable and supportable information. Therefore, financial assets aging more than 90 days are not considered impaired.

At each reporting date, the Company assesses whether these financial assets at amortized cost and investments in debt instruments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the restructuring of a financial asset by the Company on terms that the Company would not consider otherwise;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

The Company considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

Liquidity Risk

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

The Company's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The Company manages its liquidity needs by carefully monitoring scheduled debt serving payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and 1-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits or short-term marketable securities.

Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2020 and 2019, the contractual maturities of the Company are all due in one year or less.

	<i>Note</i>	2020	2019
Financial Liabilities			
Claims and losses payable	12, 25	P475,779,627	P1,678,483,024
Due to reinsurers ¹	13, 25	116,353,946	109,348,879
Accrued expenses and other liabilities ²	14, 25	4,938,175	2,593,927
		P597,071,748	P1,790,425,830

¹ Gross of due from reinsurer included under "Due to reinsurers - net" account

² Excluding payable to regulatory agencies and deferred credits

The above contractual maturities reflect the gross cash flows, which is the same as the carrying values of the liabilities at reporting dates.

Market Risk

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

Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine peso, its functional currency. Exposures to currency exchange rates arise from the Company's cessions to Overseas Ventures Insurance Corporation Ltd. (OVINCOR) and collection on fire and marine insurance premiums from Petron, which are primarily denominated in US dollar.

The Company also holds US dollar-denominated cash and cash equivalents.

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

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

	2020		2019	
	US Dollar	Peso Equivalent¹	US Dollar	Peso Equivalent¹
Financial assets	\$10,872,076	P522,109,705	\$31,891,034	P1,614,802,523
Financial liabilities	(9,804,848)	(470,858,234)	(30,238,534)	(1,531,128,193)
Net exposure	\$1,067,228	P51,251,471	\$1,652,500	P83,674,330

¹ Difference may arise due to rounding off

The Company reported net foreign exchange loss of P4.26 million and P5.19 million in 2020 and 2019, respectively (Note 19), with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar. The Company used the Banker's Association of the Philippines' closing rates of US dollar to peso of P48.02 and P50.64 as at December 29, 2020 and December 28, 2019, respectively.

The management of foreign currency risk is also supplemented by monitoring the sensitivity of financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity through the retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to income before tax and equity as at December 31:

	Change in US Dollar Exchange Rate	Effect on Income before Income Tax	Effect on Equity
2020	+0.07%	P35,876	P25,113
	-0.07%	(35,876)	(25,113)
2019	+0.80%	P669,395	P468,576
	-0.80%	(669,395)	(468,576)

In 2020, the peso volatility, as measured by the coefficient of variation of peso's daily closing rates, decreased to 0.07% from 0.80% in 2019. The Company determined that this will best represent the movement of foreign exchange rate until the next reporting date.

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

Interest Rate Risk

The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration on the maturity profile of the financial instruments.

The Company's exposure to such instruments is not significant as most of the investments have fixed interest rates and maturities.

Price Risk

Price risk is the risk that future cash flows will fluctuate because of changes in market prices of individual stocks and the changes in the level of Philippine Stock Exchange index (PSEi).

As at December 31, 2020 and 2019, the Company does not have an exposure to price risk as it does not have investments in equity securities.

Fair Value of Financial Instruments

The fair value of cash in banks and cash equivalents, insurance receivables, investment in debt securities, interest receivables, security deposits, claims and losses payable, due from/to reinsurers, and accrued expenses and other liabilities (excluding amounts payable to government agencies and deferred credits), approximate their carrying amounts due to relatively short-term nature.

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

As at December 31, investments in debt securities at FVOCI is the only financial asset measured at fair value in the statements of financial position. The fair value hierarchy of the Company's investments in debt securities is as follows:

2020					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Investments in debt securities	P125,804,949	P -	P125,804,949	P -	P125,804,949

2019					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Investments in debt securities	P162,935,468	P -	P162,935,468	P -	P162,935,468

Fair value of other debt securities is estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. The market price reference in determining the market values is derived from Bloomberg Valuation in 2020 and 2019.

As at December 31, 2020 and 2019 the Company has no financial instruments measured at fair value which are considered as Level 1 and Level 3. During the year, there were no transfers into and out of Level 1 and Level 3 fair value measurements.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	2020	2019
Cash on hand and in banks		P83,619,225	P59,433,275
Short-term placements		555,519,447	535,616,858
	5, 25	P639,138,672	P595,050,133

Cash in banks generally earns interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company, and earn annual interest ranging from 0.13% to 4.00% in 2020 and 0.25% to 6.10% in 2019.

Interest earned on cash in banks and short-term placements amounted to P9.32 million and P15.14 million in 2020 and 2019, respectively (Note 18). Accrued interest on cash and cash equivalents amounted to P0.12 million and P0.61 million in 2020 and 2019, respectively (Note 11).

7. Insurance Receivables

Insurance receivables consist of:

	<i>Note</i>	2020	2019
Premium receivables:			
Related party	22	P35,572,840	P117,966,359
Third parties		513,942	219,990
	5, 25	36,086,782	118,186,349
Reinsurance recoverable on paid losses:			
Related party	22	8,767,828	-
Third parties		45,155,072	883,582
	5, 25	53,922,900	883,582
Reinsurance recoverable on unpaid losses:			
Related party	22	235,072	6,976,543
Third parties		470,946,161	1,632,225,392
		471,181,233	1,639,201,935
Reinsurers' share on IBNR	12	7,639,459	5,823,755
		532,743,592	1,645,909,272
		P568,830,374	P1,764,095,621

All of the Company's insurance receivables have been reviewed for indicators of impairment. As at December 31, 2020 and 2019, none of these receivables were found to be impaired.

8. Investments in Debt Securities

This account consists of:

	<i>Note</i>	2020	2019
Government securities		P224,926,315	P226,607,037
Other debt securities		155,804,949	192,935,468
	5, 25	P380,731,264	P419,542,505

This account is comprised of investments in government and private securities. Government securities consist of bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of Government-owned and controlled corporations, including the Banko Sentral ng Pilipinas, which are lodged with the Bureau of Treasury, in accordance with the provisions of the Insurance Code for the benefit and security of policyholders and creditors of the Company.

This account bears fixed interest rates ranging from 1.78% to 7.02% and 4.25% to 7.02% in 2020 and 2019, respectively. In 2020 and 2019, interest income on these investments amounted to P18.22 million and P18.08 million, respectively (Note 18). As at December 31, 2020 and 2019, accrued interest on these investments amounted to P2.47 million and P3.06 million, respectively (Note 11).

The maturity profile of this account is as follows:

	Note	2020	2019
Due in one year or less	25	P183,837,067	P108,720,806
Due after one year through five years	25	196,894,197	310,821,699
	5, 25	P380,731,264	P419,542,505

The breakdown of investments by classification and measurement as of December 31 follows:

	Note	2020	2019
Financial assets at amortized cost		P254,926,315	P256,607,037
Financial assets at FVOCI	5	125,804,949	162,935,468
	5, 25	P380,731,264	P419,542,505

The reconciliation of the carrying amount of investments in debt securities as at December 31 is as follows:

	2020	2019
Financial Assets at Amortized Cost		
Balance at beginning of year	P256,607,037	P226,233,674
Additions	70,000,000	70,000,000
Maturity	(70,910,000)	(40,000,000)
Amortization of discount (premium)	(770,722)	373,363
Balance at end of year	P254,926,315	P256,607,037

	Note	2020	2019
Financial Assets at FVOCI			
Balance at beginning of year		P162,935,468	P152,242,452
Maturity		(37,450,000)	-
Fair value gain		784,740	11,137,172
Amortization of premium		(465,259)	(444,156)
Balance at end of year	5	P125,804,949	P162,935,468

The reconciliation of remeasurement of investments in debt securities at FVOCI is as follows:

	2020	2019
Balance at beginning of year	P2,101,394	(P8,471,146)
Net change in fair value of investments in debt securities	419,633	10,128,384
Net change in fair value of investments in debt securities transferred to profit or loss	465,259	444,156
Balance at end of year	P2,986,286	P2,101,394

9. Deferred Reinsurance Premiums

Deferred reinsurance premiums pertain to the portion of insurance premiums ceded out and that relates to the unexpired period of the policies at reporting dates.

The movement of this account for the years ended December 31 is as follows:

	<i>Note</i>	2020	2019
Balance at beginning of year		P41,139,133	P37,550,402
Premiums ceded		923,708,108	626,403,991
Premiums ceded related to expired periods	17	(843,126,376)	(622,815,260)
		80,581,732	3,588,731
Balance at end of year	25	P121,720,865	P41,139,133

10. Property and Equipment

The movement of this account is as follows:

	<i>Note</i>	2020		Total
		Office Equipment	EDP Equipment	
Cost				
January 1, 2020		P3,016,326	P1,770,118	P4,786,444
	25	3,016,326	1,770,118	4,786,444
Accumulated Depreciation				
January 1, 2020		3,016,326	1,749,948	4,766,274
Depreciation	20	-	20,170	20,170
	25	3,016,326	1,770,118	4,786,444
Carrying Amount				
December 31, 2020		P -	P -	P -

	<i>Note</i>	2019		Total
		Office Equipment	EDP Equipment	
Cost				
January 1, 2019		P3,016,326	P1,770,118	P4,786,444
	25	3,016,326	1,770,118	4,786,444
Accumulated Depreciation				
January 1, 2019		3,016,326	1,725,744	4,742,070
Depreciation	20	-	24,204	24,204
	25	3,016,326	1,749,948	4,766,274
Carrying Amount				
December 31, 2019		P -	P20,170	P20,170

The cost of the fully depreciated property and equipment still in use as at December 31, 2020 and 2019 amounted to P4.79 million and P3.02 million, respectively.

11. Other Assets

Other assets consist of:

	<i>Note</i>	2020	2019
Creditable withholding tax (CWT)		P14,632,178	P2,489,372
Prepaid expense		4,858,238	1,250,539
Deferred input VAT		3,179,333	4,664,797
Interest receivable	5, 6, 8	2,594,256	3,668,122
Security deposit	5	180,733	180,733
Others		27,023	12,330
	25	P25,471,761	P12,265,893

CWT pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases.

Security deposit was made with the IC in compliance with Section 378 of the Amended Insurance Code (R.A. No. 10607), to be used for payment of claims against insolvent insurance companies. As at December 31, 2020 and 2019, the balance of the deposit amounting to P0.18 million represents the Company's contribution to the deposit and it earns interest at rates determined by the IC annually. No interest income was earned from security deposit for the years ended December 31, 2020 and 2019.

12. Insurance Liabilities

Insurance liabilities consist of:

	<i>Note</i>	2020	2019
Claims and losses payable:			
Related party	22	P414,126,341	P1,508,205,853
Third parties		61,653,286	170,277,171
	5, 25	475,779,627	1,678,483,024
IBNR claims		10,038,757	8,146,250
	5	485,818,384	1,686,629,274
Reserve for unearned premiums		126,921,850	75,110,833
		P612,740,234	P1,761,740,107

In 2018, the Company adopted certain provisions in Circular Letter (CL) No. 2018-18 *Valuation Standards for Non-life Insurance Reserves* issued by the IC specifically the recognition of margin for adverse deviation (MfAD) on its IBNR. This brought the IBNR claims to 75% percentile level of sufficiency. The Company recognized 100% of the Company specific MfAD in 2020 and 2019, in accordance with the provision of IC CL No. 2018-19 *Amendment to Circular Letter No. 2016-69 "Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework"*.

The movement in claims and losses payable and IBNR and reinsurance recoverable on unpaid losses are accounted for as follows:

	2020			2019		
	Claims and Losses Payable and IBNR	Reinsurance Recoverable on Unpaid Losses and IBNR (Note 7)	Net	Claims and Losses Payable and IBNR	Reinsurance Recoverable on Unpaid Losses and IBNR (Note 7)	Net
Balance at beginning of year	P1,686,629,274	P1,645,025,690	P41,603,584	P68,717,785	P57,597,082	P11,120,703
Claims and losses incurred during the year	(1,104,143,282)	(1,100,336,049)	(3,807,233)	2,397,284,630	2,375,027,348	22,257,282
Claims and losses paid - net of recoveries	(98,560,115)	(67,684,653)	(30,875,462)	(772,183,208)	(780,450,492)	8,267,284
Increase (decrease) in IBNR	1,892,507	1,815,704	76,803	(7,189,933)	(7,148,248)	(41,685)
Balance at end of year	P485,818,384	P478,820,692	P6,997,692	P1,686,629,274	P1,645,025,690	P41,603,584

A reconciliation of reserve for unearned premiums is as follows:

	Note	2020	2019
Balance at beginning of year		P75,110,833	P41,171,777
Gross premiums written	17	906,811,779	724,872,971
Gross earned premiums	17	(855,000,762)	(690,933,915)
	17	51,811,017	33,939,056
Balance at end of year		P126,921,850	P75,110,833

Underwriting expenses consists of:

	Note	2020	2019
Claims and losses incurred during the year including IBNR		(P1,102,250,775)	P2,390,094,697
Reinsurers' share on IBNR	7	(1,815,704)	7,148,248
Reinsurance recoverable on claims and losses during the year		1,100,336,049	(2,375,027,347)
Reinsurance recoverable on paid losses			-
Others		8,658	(49,614)
Underwriting (income) expenses		(P3,721,772)	P22,165,984

During the year, there is a decrease in the estimated fire claims based on the latest valuation of the adjuster due to the adjustment made on the loss value of both property damage and business interruption claims. The adjustment is presented as part of "Claims and losses incurred" account and "Reinsurance recoverable on claims and losses" account.

The claims and losses incurred by the Company for its related parties amounted to P13.53 million and P2.26 billion in 2020 and 2019, respectively (Note 22).

13. Due to Reinsurers - net

Due to reinsurers - net consists of:

	<i>Note</i>	2020	2019
Due to reinsurers:			
Related party	22	P56,730,453	P63,863,671
Third parties		59,623,493	45,485,208
	5, 25	116,353,946	109,348,879
Due from reinsurers:			
Related party	22	385,418	881,800
Third parties		29,648,138	14,769,438
	5, 25	30,033,556	15,651,238
		P86,320,390	P93,697,641

Due to reinsurers pertain to the premiums payable to the reinsurers while due from reinsurers pertain to the Company's reinsurance commissions receivable.

All of the Company's receivables from reinsurers have been reviewed for indicators of impairment. No receivables were found to be impaired in both years.

14. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of:

	<i>Note</i>	2020	2019
Payable to regulatory agencies:			
National		P15,693,604	P22,013,961
Local		5,440,912	4,349,391
		21,134,516	26,363,352
Due to related party	22	1,065,647	811,676
Accounts payable		510,662	702,179
Accrued expenses		511,126	678,624
Unclaimed check		2,850,740	401,448
Deferred credits		2,593,560	31,086
	25	P28,666,251	P28,988,365

Unclaimed checks pertain to checks prepared by the Company but are left unclaimed by the payees and are not stale as at reporting period while deferred credits pertain to the unearned portion of service fee received from Petron Corporation.

15. Deferred Reinsurance Commission

The reconciliation of deferred reinsurance commission is as follows:

	<i>Note</i>	2020	2019
Balance at beginning of year		P1,143,892	P1,366,157
Reinsurance commissions for the year		16,625,769	13,414,531
Reinsurance commissions earned for the year		(12,879,140)	(13,636,796)
		3,746,629	(222,265)
Balance at end of year	25	P4,890,521	P1,143,892

16. Equity

As at December 31, capital stock consists of:

	2020	2019
Authorized		
Par value per share	1,000	1,000
Number of shares	750,000	750,000
Issued and Outstanding		
Number of shares	475,001	475,001
Capital stock	P475,001,000	P475,001,000

On April 11, 2019, the BOD approved the increase in the Company's authorized capital stock from P400.00 million divided into 400,000 common shares to P750.00 million divided into 750,000 common shares, both at P1,000 par value. Petron subscribed to an additional 125,000 shares of the Company for P1,000 per share or a total of P125.00 million pursuant to the increase in authorized capital stock approved by the SEC on November 4, 2019.

On October 21, 2020, the BOD and the stockholders of the Company approved the declaration of stock dividends in the total amount of P25 million equal to 25,000 shares with par value of P1,000 per share in favor of its stockholder of record, Petron Corporation, to be issued out of the unissued capital stock of the Company by December 31, 2020, subject to the approval of the IC. As at December 31, 2020, the application of the stock dividend declaration filed by the Company with the IC remained pending and was subsequently approved on January 4, 2021.

In the Special BOD and Stockholders meeting held on December 3, 2020, it was approved that the Company will increase its authorized capital stock from P750.00 million divided into 750,000 common shares to P2.25 billion divided into 2,250,000 shares, both at par value of P1,000. Of the increase, P1.49 billion was subscribed by San Miguel Corporation (SMC) in exchange of 1,494,973 common shares at a subscription price of about P2,007 per share for the total subscription amount of P3.00 billion. As at December 31, 2020, the application with SEC remained pending and was subsequently approved on February 4, 2021.

As at December 31, 2020 and 2019, the Company's unappropriated retained earnings amounted to P503.53 million and P448.62 million, respectively. The Company is required under insurance regulations to maintain prescribed amount of capital including reserves such as contributed surplus and retained earnings.

17. Net Premiums Earned

The reconciliation of movement in net premiums earned is as follows:

	<i>Note</i>	2020	2019
Gross Earned Premiums			
Gross premiums written		P906,811,779	P724,872,971
Increase in reserve for unearned premiums		(51,811,017)	(33,939,056)
	12	855,000,762	690,933,915
Reinsurers' Share of Gross Earned Premiums			
Reinsurers' share of gross premiums		923,708,108	626,403,991
Increase in deferred reinsurance premiums		(80,581,732)	(3,588,731)
	9	843,126,376	622,815,260
		P11,874,386	P68,118,655

18. Interest Income Calculated Using the Effective Interest Method

Interest income calculated using the effective interest method consists of:

	<i>Note</i>	2020	2019
Investments in debt securities at amortized cost	8	P11,153,938	P10,742,732
Cash and cash equivalents	6	9,323,740	15,135,902
Investments in debt securities at FVOCI	8	7,065,232	7,337,560
		P27,542,910	P33,216,194

19. Other Income - net

Other income - net consists of:

	<i>Note</i>	2020	2019
Service fees	22	P29,256,245	P31,051,400
Other income - net		314,239	151,354
Unrealized foreign exchange gain (loss) - net	5	(3,809,097)	2,257,960
Profit commission		2,243,709	1,742,931
Realized foreign exchange loss - net	5	(446,820)	(7,452,022)
		P27,558,276	P27,751,623

Service fees pertain to services provided by the Company to Petron other than underwriting services which are permitted as per Company's Amended Articles of Incorporation.

20. General and Administrative Expenses

General and administrative expenses consist of:

	<i>Note</i>	2020	2019
Outside services		P11,784,888	P11,895,786
Taxes and licenses		700,225	1,368,081
Professional fees		605,600	780,740
Rent	22.c, 24	450,770	454,214
Association dues		413,028	469,959
Office supplies		81,841	146,794
Depreciation	10	20,170	24,204
Representation		16,662	110,244
Miscellaneous		6,635	9,012
Transportation and travel		5,916	57,356
Advertising		-	24,859
Communication		-	16,041
		P14,085,735	P15,357,290

Outside services represent the fees billed by Petron to the Company for the services rendered by the former to the latter under their Service Agreement.

21. Income Taxes

Income tax expense consists of:

	2020	2019
Current income tax	P7,916,087	P21,129,257
Deferred income tax	1,043,147	(1,651,958)
Final tax	5,627,312	6,653,581
	P14,586,546	P26,130,880

The reconciliation between income tax computed at statutory income tax rate of 30.00% and the Company's income tax expense is as follows:

	2020	2019
Income before income tax	P69,490,749	P105,199,995
Income tax computed at statutory income tax rate of 30%	P20,847,225	P31,559,999
(Decrease) increase in income tax resulting from tax effects of:		
Excess of OSD over itemized deductions	(3,625,118)	(2,416,940)
Interest income subjected to final tax	(2,635,561)	(3,311,277)
Non-deductible expense	-	7,500
Others	-	291,598
Income tax expense	P14,586,546	P26,130,880

Deferred tax assets arise from the following:

	Note	2020	2019
Amount Charged to Profit or Loss			
Deferred reinsurance commissions		P1,467,156	P343,167
Unrealized foreign exchange loss (gain)		1,142,729	(677,388)
(Reversal) Provision for loss adjustments		(829,053)	1,900,369
Provision for loss reserves		736,499	2,017,370
IBNR claims		719,789	696,749
		3,237,120	4,280,267
Amount Charged to OCI			
Remeasurement of investments in debt securities		-	(100,152)
	25	P3,237,120	P4,180,115

The movements of deferred tax assets are accounted for as follows:

	2020	2019
Amount charged to profit or loss	P1,043,147	(P1,651,958)
Amount charged to OCI	(100,152)	564,631
	P942,995	(P1,087,327)

Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40.00% of gross income. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.

The Company opted to use OSD for its annual income tax return in 2020 and 2019.

22. Related Party Transactions

The Company's related parties include its Parent Company and entities under common control as described below. Amounts due from or due to related parties are collectible or to be settled in cash. Details of related party transactions in 2020 and 2019 are as follows:

Category/Transaction	Note	Year	Amount of the Transaction	Outstanding Balance		Terms	Conditions
				Due from Related Parties	Due to Related Parties		
Parent Company							
Premiums written	7, 22.a	2020	P905,708,169	P35,572,840	P -	On-demand;	Unsecured;
		2019	724,001,672	117,966,359	-	non-interest bearing	no impairment
Service fees	19, 22.b	2020	29,256,245	-	-	On-demand;	Unsecured;
		2019	31,051,400	-	-	non-interest bearing	no impairment
Claims	12, 22.a	2020	13,528,654	-	414,126,341	On-demand;	Unsecured;
		2019	2,261,938,403	-	1,508,205,853	non-interest bearing	no impairment
Management fee	14, 22.c	2020	11,861,467	-	1,065,647	On-demand;	Unsecured;
		2019	11,565,746	-	811,676	non-interest bearing	no impairment
Entities under Common Control							
Premiums ceded	13, 22.a	2020	101,403,943	-	56,730,453	On-demand;	Unsecured;
		2019	101,013,645	-	63,863,671	non-interest bearing	no impairment
Commissions earned	13	2020	583,076	385,418	-	On-demand;	Unsecured;
		2019	2,371,584	881,800	-	non-interest bearing	no impairment
Reinsurance recoverable on paid losses	7	2020	-	8,767,828	-	On-demand;	Unsecured;
		2019	-	-	-	non-interest bearing	no impairment
Reinsurance recoverable on unpaid losses	7	2020	-	235,072	-	On-demand;	Unsecured;
		2019	-	6,976,543	-	non-interest bearing	no impairment
TOTAL		2020		P44,961,158	P471,922,441		
TOTAL		2019		P125,824,702	P1,572,881,200		

- 22.a In the normal course of business, the Company provides insurance cover to its Parent Company, Petron, and obtains certain reinsurance coverage from OVINCOR, a wholly-owned subsidiary of Petron and incorporated under the laws of Bermuda.

The Company earned a total of P905.71 million and P724.00 million in premiums written and incurred P13.53 million and P2.26 billion in claims from Petron in 2020 and 2019, respectively. As at December 31, 2020, outstanding insurance receivables from and claims payable to Petron amounted to P35.57 million (2019: P117.97 million) and P414.13 million (2019: P1.51 billion), respectively.

The Company ceded premiums amounting to P101.40 million and P101.01 million to OVINCOR for the years ended December 31, 2020 and 2019, respectively. Outstanding balance owed to OVINCOR as at December 31, 2020 and 2019 amounted to P56.73 million and P63.86 million, respectively.

- 22.b The Company provides services to Petron other than underwriting services which are permitted under its Amended Articles of Incorporation. As a result, the Company recognized service fees amounting to P29.26 million and P31.05 million in 2020 and 2019, respectively.

- 22.c The Company entered into a management agreement with Petron for the latter to provide necessary manpower and office space facilities to support its operations for a period of four years. This agreement is effective from January 1, 2013 until either Petron or the Company provides a written notice of termination of the management agreement.

Total expenses charged to operations from this management agreement are as follows:

	<i>Note</i>	2020	2019
Outside services		P11,404,335	P11,085,842
Rent	20, 24	450,770	454,214
Transportation and travel		3,274	-
Office supplies		3,088	12,297
Advertising		-	13,393
		P11,861,467	P11,565,746

Outstanding balance owed to Petron amounted to P1.07 million and P0.81 million as at December 31, 2020 and 2019, respectively.

Key Management Compensation

There is no compensation for key management personnel in 2020 and 2019 since the key management roles are held by employees of Petron.

23. Capital Management and Regulatory Requirements

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and

- to provide an adequate return to shareholders by complying with the capital requirements and limitation enforced by the IC and aligning the Company's operation strategy to its corporate goals.

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 IC and the amount computed under the risk-based capital model.

The Company manages capital through a process that determines future projected capital requirements through the development of long-term financial plans and projections that consider the impact of surplus of new business, profitability of in-force business and other major corporate initiatives that will affect capitalization levels.

The IC is interested in protecting the rights of the policyholders and maintaining close vigil to ensure that the Company is satisfactorily managing the affairs for policyholders' benefits.

The Company considers capital stock, contributed surplus, remeasurement of investments in debt securities and retained earnings as capital it manages.

There were no changes made to its capital base, objectives, policies and processes from previous years.

Net Worth Requirements

Under the Amended Insurance Code (Republic Act 10607) which was approved on August 15, 2013, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

Net Worth	Compliance Date
P250,000,000	On or before June 30, 2013
550,000,000	On or before December 31, 2016
900,000,000	On or before December 31, 2019
1,300,000,000	On or before December 31, 2022

As at December 31, 2020 and 2019, the Company has complied with the net worth requirements, based on internal calculations. The final amount of net worth can be determined only after the accounts of the Company have been examined by the IC, especially as to the admitted and non-admitted assets as defined under the Insurance Code.

RBC2 Requirements

IC Circular No. 2016-68, *Amended RBC2 Framework*, provides for the RBC2 framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the insurance companies in relation to the risks an insurance company is exposed to. Annually, every non-life insurance company is required to maintain an RBC2 ratio of at least 100.00% and not to fail the trend test. Failure to meet the minimum RBC2 ratio shall subject the insurance company to regulatory intervention which could be at various levels depending on the degree of the violation.

The RBC2 ratio shall be calculated as total available capital (TAC) divided by the RBC2 requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits determined by IC. With Tier 1 Capital being the capital fully available to cover losses at all times on a going concern and winding up basis. And Tier 2 Capital as the capital that can also provide additional buffer to the insurance company, though it is not of the same high quality as Tier 1 Capital. RBC2 requirement shall be computed based on the formula provided in the Circular and shall include credit risk, insurance risk, market risk, operational risk, catastrophe risk, and surrender risk.

As at December 31, 2020 and 2019, the Company has complied with RBC2 requirements based on internal calculations.

The final RBC2 ratio can be determined only after the accounts of the Company have been examined by the IC, specifically as to admitted and non-admitted assets as defined under the Insurance Code.

24. Leases

The Company has determined that the significant risks and rewards for leased property from a related party are retained by the lessor.

On April 27, 2020, the Company has renewed its noncancelable operating lease agreement for office premises with terms of five (5) years which covered the periods from June 1, 2020 to May 31, 2025. The lease agreement includes escalation clauses that allow a reasonable increase in rates. The lease is renewable under certain terms and conditions.

As at December 31, future minimum rental payments under the new lease agreement are as follows:

	2020	2019
Within one year	P444,324	P191,581
After one year but not more than five years	1,655,903	-
	P2,100,227	P191,581

Rent expense amounting to P0.45 million and P0.45 million in 2020 and 2019, respectively, is presented as rent under the "General and administrative expenses" account in profit or loss (Notes 20 and 22).

25. Maturity Analysis of Assets and Liabilities

The following table show an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within 12 months and beyond 12 months from financial reporting date.

	Note	December 31, 2020			December 31, 2019		
		Due Within 12 Months	Due Beyond 12 Months	Total	Due Within 12 Months	Due Beyond 12 Months	Total
Financial Assets							
Cash and cash equivalents	6	P639,138,672	P -	P639,138,672	P595,050,133	P -	P595,050,133
Insurance receivables ¹	7	90,009,682	-	90,009,682	119,069,931	-	119,069,931
Investment in debt securities	8	183,837,067	196,894,197	380,731,264	108,720,806	310,821,699	419,542,505
Due from reinsurers ²	13	30,033,556	-	30,033,556	15,651,238	-	15,651,238
Other assets ³	11	2,594,256	180,733	2,774,989	3,668,122	180,733	3,848,855
		945,613,233	197,074,930	1,142,688,163	842,160,230	311,002,432	1,153,162,662
Non-financial Assets							
Insurance receivables ⁴	7	478,820,692	-	478,820,692	1,645,025,690	-	1,645,025,690
Deferred reinsurance premiums	9	121,720,865	-	121,720,865	41,139,133	-	41,139,133
Property and equipment	10	-	4,786,444	4,786,444	-	4,786,444	4,786,444
Deferred tax assets	21	-	3,237,120	3,237,120	-	4,180,115	4,180,115
Other assets ⁵	11	22,696,772	-	22,696,772	8,417,038	-	8,417,038
		623,238,329	8,023,564	631,261,893	1,694,581,861	8,966,559	1,703,548,420
Less							
Allowance for impairment loss	7, 20	-	-	-	-	-	-
Accumulated depreciation	10	-	4,786,444	4,786,444	-	4,766,274	4,766,274
		-	4,786,444	4,786,444	-	4,766,274	4,766,274
		P1,568,851,562	P200,312,050	P1,769,163,612	P2,536,742,091	P315,202,717	P2,851,944,808
Financial Liabilities							
Claims and losses payable ⁶	12	P475,779,627	P -	P475,779,627	P1,678,483,024	P -	P1,678,483,024
Due to reinsurers	13	116,353,946	-	116,353,946	109,348,879	-	109,348,879
Accrued expenses and other liabilities ⁷	14	4,938,175	-	4,938,175	2,593,927	-	2,593,927
		597,071,748	-	597,071,748	1,790,425,830	-	1,790,425,830
Nonfinancial Liabilities							
Insurance liabilities	12	136,960,607	-	136,960,607	83,257,083	-	83,257,083
Accrued expenses and other liabilities ⁸	14	23,728,076	-	23,728,076	26,394,438	-	26,394,438
Deferred reinsurance commission	15	4,890,521	-	4,890,521	1,143,892	-	1,143,892
		165,579,204	-	165,579,204	110,795,413	-	110,795,413
		P762,650,952	P -	P762,650,952	P1,901,221,243	P -	P1,901,221,243

¹ Excluding Reinsurance recoverable on unpaid losses, Reinsurers' share on IBNR and gross of Allowance for impairment loss

² Included under "Due to reinsurers - net" account and gross of Allowance for impairment loss

³ Includes Interest receivable and Security deposit

⁴ Includes Reinsurance recoverable on unpaid losses and Reinsurers' share on IBNR

⁵ Includes Deferred input tax, Creditable withholding tax, Prepaid expense and Others account

⁶ Included under "Insurance liabilities" account

⁷ Includes Due to related party, Accounts payable, Accrued expenses and Unclaimed checks

⁸ Includes Payables to regulatory agencies (both National and Local) and Deferred credits

26. Events After the Reporting Period

Issuance of Stock Dividend to Petron Corporation

On October 21, 2020, the BOD and the stockholders of the Company approved the declaration of stock dividends in the total amount of P25 million equal to 25,000 shares with par value of P1,000 per share in favor of its stockholder of record, Petron Corporation, to be issued out of the unissued capital stock of the Company by December 31, 2020.

The application for stock dividend declaration was approved by IC on January 4, 2021.

Subscription of Capital Stock by SMC

On December 3, 2020, the BOD and stockholders also approved the amendment of the Articles of Incorporation of the Company to increase its authorized capital stock from P750.00 million divided into 750,00 common shares to P2.25 billion divided into 2,250,000 shares, both at par value of P1,000 per share and issue 1,494,973 shares to SMC at book value of about P2,007 per share for an aggregate subscription price of P3.00 billion, which was paid in cash on January 5, 2021.

The application for the increase in capital stocks was approved by the IC and SEC on December 14, 2020 and February 4, 2021, respectively.

As at February 4, 2021, the Company is 74.94% and 25.06% owned by SMC and Petron, respectively.

27. Other Matters

- Corona Virus Disease (COVID-19) Pandemic

On March 8, 2020, under Proclamation 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the spread of the COVID-19. To manage the spread of the disease, the entire Luzon has been placed under an Enhanced Community Quarantine (ECQ), effective from March 17, 2020, which involved several measures including travel restrictions, home quarantine and temporary suspension or regulation of business operations, among others, limiting activities related to the provision of essential goods and services. On June 1, 2020 the ECQ restrictions was lifted in the locations where the Company operates and transitioned to General Community Quarantine (GCQ) which enables the Company to resume operations.

The Company does not foresee any going concern issue affecting its business operations.

- Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill

On November 26, 2020, the Senate approved on third and final reading Senate Bill No. 1357, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act or CREATE, which seeks to reduce the corporate income tax (CIT) rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performance-based.

One of the key provisions of the bill that may affect the financial statements of the Company is an immediate 5% point cut in the CIT rate starting July 2020.

The bill is not considered substantively enacted as at December 31, 2020, given the following circumstances:

- (1) Congress as the legislative body and the President representing the executive body of the Government are separate and independent from each other;
- (2) The bill is still pending with the bicameral committee of Congress, and consequently not yet submitted to the President of the Philippines;
- (3) Upon submission to the President of the Philippines, he may either approve it or exercise his veto power to stop the enactment of the subject bill; and
- (4) In case the bill is vetoed by the President, Congress may not be able to garner the required two-thirds vote to overturn the president veto.

The bicameral committee approved the bill on February 1, 2021.

As at March 8, 2021, the bill is yet to be approved by the President of the Philippines.

Current and deferred taxes are measured using the applicable income tax rates as at December 31, 2020.

28. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010 of the Bureau of Internal Revenue (BIR)

The BIR has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to the financial statements. The Company presented the required supplementary tax information as a separate schedule and attachment to its annual income tax return.