

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Chinabank Insurance Brokers, Inc.
2/F, VGP Center, 6772 Ayala Avenue
Barangay San Lorenzo, Makati City



Report on the Audit of the Financial Statements

Opinion

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

In our opinion, 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 (PFRSs).

Basis for Opinion

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

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

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

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

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



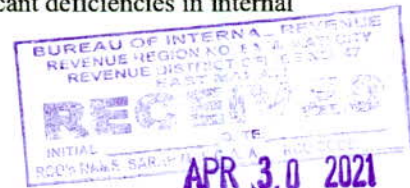
Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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



Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Chinabank Insurance Brokers, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca
Josephine Adrienne A. Abarca
Partner

CPA Certificate No. 92126

SEC Accreditation No. 0466-AR-4 (Group A),

November 13, 2018, valid until November 12, 2021

Tax Identification No. 163-257-145

BIR Accreditation No. 08-001998-061-2020,

December 3, 2020, valid until December 2, 2023

PTR No. 8534208, January 4, 2021, Makati City

April 29, 2021



APR 30 2021

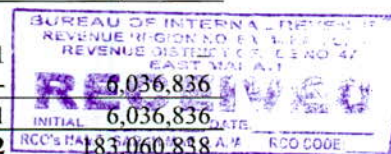


CHINABANK INSURANCE BROKERS, INC.
(A Wholly Owned Subsidiary of China Banking Corporation)

BALANCE SHEETS

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 18)	₱276,890,285	₱445,061,737
Receivables (Notes 6 and 18)	6,288,470	6,180,414
Investment at fair value through profit or loss (Note 8 and 18)	150,040,984	—
Other current assets (Note 7)	29,046,344	26,020,291
	462,266,083	477,262,442
Noncurrent Assets		
Investments at fair value through other comprehensive income (Note 8)	—	26,216,319
Property and equipment (Note 9)	41,247,397	5,597,908
Software costs (Note 10)	6,711,299	7,761,060
Deferred tax asset (Note 15)	13,748,466	12,390,591
Pension asset (Note 14)	1,546,192	—
Other noncurrent assets (Note 11)	1,872,371	319,975
	65,125,725	52,285,853
	₱527,391,808	₱529,548,295
LIABILITIES AND EQUITY		
Current Liabilities		
Payable to insurance principals (Note 12)	₱37,950,352	₱67,480,114
Accrued expenses	4,828,948	5,176,082
Lease liability (Note 19)	6,314,211	—
Other liabilities (Note 13)	189,218,600	104,367,806
	238,312,111	177,024,002
Noncurrent Liability		
Lease liability (Note 19)	26,654,071	—
Pension liability (Note 14)	—	—
	26,654,071	—
	264,966,182	183,060,838
Equity		
Capital stock – ₱100 par value		
Authorized – 5,000,000 shares		
Issued and outstanding – 1,421,300 shares	142,130,000	142,130,000
Retained earnings (Note 16)		
Appropriated	30,000,000	30,000,000
Unappropriated	81,336,439	167,672,598
Other equity – stock grant (Note 16)	656,590	—
Net unrealized losses on investments at fair value through other comprehensive income (Note 8)	—	(1,583,681)
Remeasurement gains on retirement plan (Note 14)	8,302,597	8,268,540
	262,425,626	346,487,457
	₱527,391,808	₱529,548,295

See accompanying Notes to Financial Statements.



APR 30 2021



CHINABANK INSURANCE BROKERS, INC.
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STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2020	2019
REVENUE		
Commission	₱197,123,805	₱163,506,271
OPERATING EXPENSES		
Compensation and fringe benefits (Notes 14 and 18)	54,787,524	46,133,247
Marketing	24,131,514	24,473,826
Provision for credit and impairment losses (Note 11)	—	6,625,536
Depreciation and amortization (Notes 9 and 10)	5,990,193	4,337,513
Management and professional fees (Note 18)	5,422,225	5,482,235
Occupancy	5,260,181	3,989,840
Entertainment, amusement, and recreation (Note 15)	3,544,219	2,450,500
Taxes and licenses	1,985,210	1,607,147
Messengerial and janitorial services	913,171	1,559,689
Postage, telephone, and telegraph	781,044	537,319
Stationery and office supplies	677,917	1,207,025
Transportation and travel	270,547	946,502
Miscellaneous	6,615,377	6,176,285
	110,379,122	105,526,664
NET OPERATING INCOME	86,744,683	57,979,607
OTHER INCOME (LOSS)		
Interest (Notes 5, 8 and 18)	2,833,205	14,532,079
Miscellaneous (Notes 8, 9 and 13)	(1,735,965)	18,621,260
	1,097,240	33,153,339
INCOME BEFORE INCOME TAX	87,841,923	91,132,946
PROVISION FOR INCOME TAX (Note 15)	24,178,082	21,860,585
NET INCOME	63,663,841	69,272,361
OTHER COMPREHENSIVE INCOME		
<i>Items that recycle to profit or loss in subsequent periods:</i>		
Fair value changes on investments at fair value through other comprehensive income (Note 8)	29,663	
Loss (gain) on investments at fair value through other comprehensive income taken to profit or loss (Note 8)	1,554,018	(7,881,865)
<i>Item that does not recycle to profit or loss in subsequent periods:</i>		
Remeasurement gains (losses) on retirement plan, net of tax (Note 14)	34,057	(1,934,399)
	1,617,738	11,680,740
TOTAL COMPREHENSIVE INCOME	₱65,281,579	₱80,953,101

See accompanying Notes to Financial Statements.



CHINABANK INSURANCE BROKERS, INC.
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STATEMENTS OF CHANGES IN EQUITY

	Capital Stock	Retained Earnings (Notes 16)	Other Equity - Stock Grant	Net Unrealized Losses on Investments at Fair Value through Other Comprehensive Income (Note 8)	Remeasurement Gains (Losses) on Retirement Plan (Note 14)	Total
		Appropriated	Unappropriated			
Balance at January 1, 2020	₱142,130,000	₱30,000,000	₱167,672,598	₱-	(₱1,583,681)	₱346,487,457
Cash dividends declared and paid	-	-	(150,000,000)	-	-	(150,000,000)
Stock grant (Note 16)	-	-	-	656,590	-	656,590
Total comprehensive income	-	-	63,663,841	-	1,583,681	65,281,579
Balance at December 31, 2020	₱142,130,000	₱30,000,000	₱81,336,439	₱656,590	₱-	₱262,425,626
Balance at January 1, 2019	₱142,130,000	₱135,000,000	₱43,400,237	₱-	(₱15,198,820)	₱315,534,356
Cash dividends declared and paid	-	(50,000,000)	-	-	-	(50,000,000)
Unwinding of appropriations	-	(55,000,000)	55,000,000	-	-	-
Total comprehensive income (loss)	-	-	69,272,361	-	13,615,139	80,953,101
Balance at December 31, 2019	₱142,130,000	₱30,000,000	₱167,672,598	₱-	(₱1,583,681)	₱346,487,457

See accompanying Notes to Financial Statements.



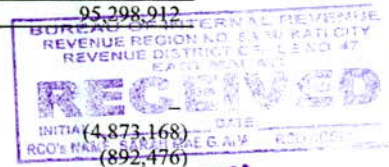
APR 30 2021



CHINABANK INSURANCE BROKERS, INC.
(A Wholly Owned Subsidiary of China Banking Corporation)
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P87,841,923	P91,132,946
Adjustments for:		
Interest income (Notes 5 and 8)	(2,807,524)	(14,532,079)
Provision for credit and impairment losses (Note 11)	—	6,625,536
Retirement expense (Note 14)	2,917,306	2,030,720
Depreciation and amortization (Notes 9 and 10)	5,990,193	4,337,513
Loss (gain) on sale of investments at fair value through other comprehensive income (Note 8)	1,554,018	(7,881,865)
Stock grant (Note 16)	656,590	—
Unrealized foreign exchange loss	222,931	46,704
Interest expense (Note 19)	262,276	31,891
Trading gain on investment at fair value through profit or loss (Note 8)	(40,984)	—
Gain on sale of property and equipment (Note 9)	—	(359,374)
Operating income before working capital changes	96,596,729	81,431,992
(Increase) in the amounts of:		
Receivables	(1,097,988)	(925,331)
Other assets	(4,578,449)	(6,533,140)
Increase (decrease) in the amounts of:		
Payable to insurance principals	(29,529,762)	51,552,390
Other liabilities	84,850,794	(17,355,447)
Accrued expenses	(347,134)	2,104,720
Net cash generated from operations	145,894,190	110,275,184
Interest received	3,502,982	19,312,487
Income tax paid (Note 15)	(27,048,092)	(34,288,759)
Contributions paid (Note 14)	(8,954,142)	—
Net cash provided by operating activities	113,394,938	95,298,912
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment at fair value through profit or loss (Note 8)	(150,000,000)	—
Property and equipment (Note 9)	(5,409,366)	(4,873,168)
Software costs (Note 10)	(240,542)	(892,476)
Proceeds from:		
Sale of investments at fair value through other comprehensive income (Note 8)	26,540,456	144,231,028
Sale of property equipment (Note 9)	886,612	787,204
Net cash provided by (used in) investing activities	(128,222,840)	139,252,588
CASH FLOWS FROM FINANCING ACTIVITIES		
Lease payments (Note 19)	(3,120,619)	(1,901,847)
Dividends declared and paid to stockholders	(150,000,000)	(50,000,000)
Net cash used in financing activities	(153,120,619)	(51,901,847)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(167,948,521)	182,649,653
EFFECTS OF FOREIGN EXCHANGE	(222,931)	26,647
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	445,061,737	262,385,437
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P276,890,285	P445,061,737

See accompanying Notes to Financial Statements.



CHINABANK INSURANCE BROKERS, INC.
(A Wholly Owned Subsidiary of China Banking Corporation)
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Chinabank Insurance Brokers, Inc. (the Company), a wholly owned subsidiary of China Banking Corporation (CBC or the Parent Company), was registered with the Philippine Securities and Exchange Commission (SEC) on November 3, 1998 primarily to engage in insurance brokerage business. The Company started its commercial operations on February 24, 1999.

The Company's principal place of business is located at 2/F, VGP Center, 6772 Ayala Avenue, Barangay San Lorenzo, Makati City.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI) that have been measured at fair value. The financial statements are presented in Philippine peso (₱), which is also the Company's functional. All amounts are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The accompanying financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures

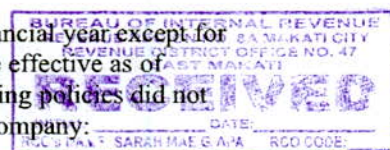
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new accounting pronouncements which became effective as of January 1, 2020. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Company:

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.



APR 30 2021



- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence 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 that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

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

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

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

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.



Summary of Significant Accounting Policies

Fair Value Measurement

For measurement and disclosure purposes, the Company determines the fair value of an asset or liability at initial measurement date or at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

Current versus Non-current Classification

The Company presents assets and liabilities in the balance sheet based on current or non-current classification. An asset is presented as a current asset when:

- It is expected to be realized or intended to be sold or consumed within the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is expected to be realized within twelve months after the reporting period; or
- It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current assets.

A liability is presented as a current liability when:

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

All other liabilities are classified as non-current.

The Company classifies deferred tax assets and liabilities as non-current.



Financial Instruments

Date of recognition

Financial instruments within the scope of PFRS 9 are recognized in the balance sheet when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date, the date that an asset is delivered to or by the Company.

Classification and initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at fair value; except for financial instruments at FVTPL, transaction costs are added to, or subtracted from, the amount at initial recognition.

Contractual cash flows test

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial assets is denominated, and the period for which the interest rate is set.

Business model assessment

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

As of December 31, 2020 and 2019, the Company's financial assets comprised of financial assets at amortized cost, financial assets at FVTPL and financial assets at FVOCI (debt instruments).

Financial assets at amortized cost

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

- The asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.



Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less allowance for expected credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of comprehensive income. Gains and losses are recognized in the statement of comprehensive income when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes 'Cash and cash equivalents', 'Receivables', 'Claims advances' and 'Rental deposit' under 'Other noncurrent assets'.

The Company may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

Financial assets at FVTPL

Debt instruments that neither meet the amortized cost nor the FVOCI criteria, or that meet the criteria but the Company has chosen to designate as at FVTPL at initial recognition, are classified as financial assets at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Company irrevocably designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Company's financial assets at FVTPL include debt and equity securities which are held for trading purposes.

Gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL are included in 'Other income (loss) - miscellaneous' account in the statement of comprehensive income.

Financial assets at FVOCI (debt instruments)

Financial assets are measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in other comprehensive income (OCI). Interest income and foreign exchange gains and losses are recognized in the statement of comprehensive income in the same manner as for financial assets measured at amortized cost. Provision for credit losses is recognized in profit or loss with the corresponding expected credit loss (ECL) recognized in OCI.

Upon derecognition of a debt security measured at FVOCI, cumulative gains or losses previously recognized in OCI are reclassified to the statement of comprehensive income.

Reclassification of financial instruments

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



A change in business model occurs when the Company either begins or ceases to perform an activity that is significant to its operations. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. Reclassification of financial liabilities is not allowed.

Financial liabilities at amortized cost

Issued financial instruments or their components, which are not designated at FVTPL are classified as liabilities under 'Payable to insurance principals', 'Accrued expenses', and 'Other liabilities', where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to 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.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Financial liabilities at amortized cost are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

Impairment of Financial Assets

The Company recognizes an allowance for ECL for all debt financial assets except those classified as FVTPL. The ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Company defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes at least 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted.

For trade receivables, the Company applies the simplified approach in calculating ECL since these receivables arise from transactions within the scope of PFRS 15 and do not contain significant financing component. Under the simplified approach, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each balance sheet date. On the other hand, the Company calculates the ECL for its investments at FVOCI and cash in bank by estimating the applicable exposure at default, probability of default, and loss given default.



Derecognition of Financial Instruments

Financial assets

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

- The rights to receive cash flows from the asset have expired; or
- The Company retains the right to receive cash flows from the 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 rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the 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 nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Write-offs

Financial assets are written off either partially or in their entirety when the Company no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to provision for credit losses.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Income and expenses are not offset in the statement comprehensive income unless required or permitted by any accounting standard or interpretation, and is specifically disclosed in the accounting policies of the Company.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.



Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases. It also applies the lease of low-value assets recognition exemption to assets that are considered to be low-value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Property and Equipment

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

The initial cost of property and equipment comprises of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhead costs, are charged against current operations. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment loss are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

It is the Company's policy to classify right-of-use assets as part of property and equipment. The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.



Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets as follows:

	EUL
Transportation equipment	3 to 5 years
Furniture, fixtures and office equipment	3 to 5 years
Leasehold improvement	5 years or the related lease terms, whichever is shorter

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units (CGUs) are written down to their recoverable amounts.

Software Costs

Costs that are directly associated with identifiable and unique software controlled by the Company and will generate economic benefits exceeding costs beyond one year are capitalized. Direct costs are capitalized during the period of software development and are amortized on a straight-line basis over the expected useful life of 10 years upon completion.

Costs associated with maintaining computer software programs are recognized as expense when incurred.

Expenditures which enhance or extend the performance of software programs beyond their original specifications are recognized as capital improvements and added to the original cost of the software.

The useful life of capitalized software cost is assessed and reviewed periodically. Changes in the expected useful life are accounted for by changing the amortization period and method, as appropriate, and are treated as changes in accounting estimates.

Impairment of Nonfinancial Assets

At each balance sheet date, the Company assesses whether there is any indication that its nonfinancial assets (e.g., property and equipment, software cost) may be impaired. When an indicator of impairment exists or when annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or a CGU's fair value less costs to sell and its value in use (VIU). In assessing VIU, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized under 'Provision for credit and impairment losses' in the statement of comprehensive income.



An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises. A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation) had no impairment loss been recognized for the asset in prior years.

Payable to Insurance Principals

Payable to insurance principals pertain to premiums collected from policyholders but not yet remitted to insurance companies.

Advance Premium Payments

Advance premium payments represent premiums collected but not yet due as of balance sheet date.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Additional paid-in capital' account. If the additional paid-in capital is not sufficient, the excess is charged against the 'Retained earnings.'

When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Retained earnings represent accumulated earnings of the Company less dividends declared.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has generally concluded that it is acting as an agent in its revenue arrangements because it does not control the specified goods or services before these are transferred to the customer.

Therefore, the Company's revenue is the net amount of consideration that the Company retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

For revenue stream covered by PFRS 15 (i.e. commission income), the Company exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the five-step model to contracts with customers.

The following revenue recognition criteria must also be met before revenue is recognized:

Commission income

Revenue from commissions is recognized upon collection of insurance premium from policyholders.

Interest income

Interest income on placements is recognized as it accrues, taking into account the effective yield on the assets.



Gain (loss) from investment securities under miscellaneous income

Gain (loss) from investment securities arise from changes in fair value of financial assets at FVTPL and gains and losses realized from sale of FVOCI debt investments.

Expense Recognition

Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred. Costs and expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Company.

Income Taxes

Income tax on profit or loss for the year comprises current and deferred taxes. Income tax is determined in accordance with the Philippine Tax Law. Provision for income tax is recognized in the statement of comprehensive income.

Current taxes

Current tax assets and current tax liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date. Effective January 1, 2019, Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred taxes

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date except (a) where the deferred income tax asset or liability relating to the 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 (b) in respect of temporary differences associated with investments in subsidiaries and associates, deferred income tax is provided or recognized where the timing of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise 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 income nor taxable income.

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



Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax relating to items recognized directly in equity is recognized in the statement of comprehensive income.

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

Foreign Currency Translation

Transaction and balances

For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities are translated in Philippine pesos based on the closing rate prevailing at the balance sheet date and foreign currency-denominated income and expenses, at the prevailing exchange rate at the date of transaction. Foreign exchange differences arising from restatements of foreign currency-denominated monetary assets and liabilities are credited to or charged against operations in the period in which the rates change.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Value-Added Tax (VAT) and Deferred Output VAT

Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable. Deferred output VAT pertains to the amount of Output VAT on sales on credit which have not yet been collected as at balance sheet date.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of 'Other current assets' or 'Other liabilities' in the balance sheet.

Retirement Benefits

The Company is covered by a noncontributory defined benefit retirement plan. A defined benefit plan is a retirement plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Defined benefit plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the balance sheet date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.



Defined benefit costs comprise the following:

- a. Service costs;
- b. Net interest on the net defined benefit liability or asset; and
- c. Remeasurements of net defined benefit liability or asset.

Service costs which include current service costs and past service costs are recognized as expense in the statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to statement of comprehensive income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Share-based Payments (Stock Grants)

Employees (including senior executives) of the Company received remuneration in the form of share-based payments (stock grants), whereby employees rendered services as consideration for equity instruments (equity-settled transactions) of CBC. CBC has the obligation to settle the transaction with the Company's employees by providing its own equity instruments.

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.



Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met.

An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the Company or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

When the equity-settled transactions vest immediately but the grant date is not yet determined as of balance sheet date, the Company recognizes the expense and the corresponding increase in equity using the estimated grant date fair value as of balance sheet date. Subsequently, once the grant date is determined, the Company revises the estimate based on the actual grant date fair value.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. When the Company expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

Contingent Assets and Liabilities

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

Events after the Balance Sheet Date

Post year-end events up to the date of approval of the board of directors of the financial statements that provide additional information about the Company's financial position at the balance sheet date (adjusting event) are recognized in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.



New standards and interpretations that have been issued but are not yet effective

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

Effective beginning on or after January 1, 2021

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

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

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

The Company shall also disclose information about:

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Company is not required to restate prior periods.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.



The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

- Amendments to PFRS 9, *Financial Instruments, Fees in the ‘10 per cent’ test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.



An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

Effective beginning on or after January 1, 2023

▪ Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

▪ PFRS 17, *Insurance Contracts*

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

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

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.



On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgements and Estimates

The preparation of the financial statements in accordance with PFRS requires the Company to make estimates that affect the amounts reported in the Company's financial statements and accompanying notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

a. Leases – Determining the lease term

The Company's lease contract includes extensions and termination options. The Company exercises judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location to create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimates

a. Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (by reference to prevailing risk-free rates) adjusted to take into account the entity's credit risk (i.e., credit spread).

The Company's lease liability amounted to ₱32.97 million and nil as of December 31, 2020 and 2019, respectively (Note 19).

b. Present value of retirement obligation

The present value of the pension obligation is determined using actuarial valuation. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions.



The salary projection rate was based on the historical trend of salary increase rate of the Company. The mortality rate was based on the 1994 US Group Annuity Mortality Table. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at the balance sheet date.

As of December 31, 2020 and 2019, pension asset (liability) amounted to ₱1.55 million and (₱6.04 million), respectively. Further details about the assumptions used are disclosed in Note 14.

c. *Recognition of deferred tax assets*

Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination was made.

The Company's estimates of future taxable income indicate that certain temporary differences will be realized in the future. The deferred tax assets recognized as of December 31, 2020 and 2019 amounted to ₱13.75 million and ₱12.39 million (Note 15).

4. Fair Value Measurement

As at December 31, 2020 and 2019, the carrying values of financial assets and financial liabilities as reflected in the balance sheets and related notes approximate their respective fair values.

Cash and cash equivalents, Receivables, Other current assets, Payable to insurance principals, Accrued expenses and Other liabilities (excluding statutory payables)

The carrying values approximate their fair values in view of the relatively short-term maturities of these financial instruments.

Investments Securities

Fair value of quoted private debt securities are based on quoted market prices. Fair value of money market funds is determined by reference to the published net asset value per unit.

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



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

The following tables summarize the carrying amount and fair values of the financial instruments, analyzed based on hierarchy described above for determining and disclosing the fair value of financial instruments by valuation technique:

	2020		2019	
	Carrying Value	Level 2	Carrying Value	Level 1
Assets measured at fair value				
Investment at FVTPL				
Unit Trust Investment Fund	P150,040,984	P150,040,984	P-	P-
Investments at FVOCI				
Private securities	-	-	26,216,319	26,216,319
	P150,040,984	P150,040,984	P26,216,319	P26,216,319

There were no financial instruments classified under Level 3 in 2020 and 2019. There were no transfers between levels during the year.

5. Cash and Cash Equivalents

This account consists of:

	2020	2019
Petty cash fund	P13,100	P13,100
Cash in bank (Note 18)	236,881,570	285,343,370
Short-term investments (Note 18)	39,995,615	159,705,267
	P276,890,285	P445,061,737

Cash in bank includes demand deposit accounts which earn interest at the prevailing bank deposit rates and special savings accounts which earn annual interest rates ranging from 0.02% to 0.10% in 2020 and 0.13% to 0.50% in 2019. Interest income recognized on cash in bank in 2020 and 2019 amounted to P0.52 million and P0.32 million, respectively.

Short-term investments include special savings deposit accounts with maturities of less than three months from the dates of placement. Short-term investments in 2020 and 2019 earned interest at annual rates ranging from 0.5% to 3.20% and 3.00% to 5.50%, respectively. Interest income recognized on short-term investments in 2020 and 2019 amounted to P2.09 million and P6.40 million, respectively.

6. Receivables

This account consists of:

	2020	2019
Accrued interest receivables	P26,664	P722,122
Other receivables	6,261,806	5,458,292
	P6,288,470	P6,180,414



Accrued interest receivables are accruals from short-term investments and investments at FVOCI.

Other receivables include advances to employees, receivables from CBC (Note 18), receivables from Social Security System, and claims advances made and due from Insurers.

In its capacity as an insurance broker, the Company collects premiums from policyholders and, after deducting its commissions, remits the premiums to the respective insurance companies. Uncollected premiums from policyholders are receivables that are not recorded in the Company's balance sheets.

As of December 31, 2020 and 2019, the gross amounts of uncollected premiums due from policyholders for contracts sold through the Company's brokerage service amounted to ₱505.91 million and ₱294.95 million, respectively (see Note 12).

7. Other Current Assets

This account consists of:

	2020	2019
Prepaid taxes	₱26,354,834	₱26,020,291
Prepaid expense	2,691,510	—
	₱29,046,344	₱26,020,291

Prepaid taxes represent income tax credits evidenced by creditable withholding tax certificates duly submitted upon filing of income tax returns. For the years ended December 31, 2020 and 2019, the Company has utilized creditable withholding taxes amounting to ₱24.28 million and ₱25.76 million, respectively.

Prepaid expenses include input vat and creditable withholding taxes for submission and filing in subsequent period.

8. Investments

This account consists of:

	2020	2019
Investments at:		
FVTPL	₱150,040,984	₱—
FVOCI	—	26,216,319
	₱150,040,984	₱26,216,319

As of December 31, 2020, investments at FVTPL pertain to investments in cash and money market funds. Gains from changes in the fair value amounting to ₱0.04 million are included in 'Other income (loss) - miscellaneous' in the statements of comprehensive income.

In 2020, the Company sold its investments in private debt securities carried at FVOCI resulting in loss on sale amounting to ₱1.54 million. This loss is recognized under 'Other income (loss) - miscellaneous' in the statements of comprehensive income.



In 2019, the Company sold its investments in government debt securities and private debt securities carried at FVOCI resulting in gains on sale amounting to ₱7.59 million and ₱0.29 million, respectively. These are recognized under 'Other income (loss) - miscellaneous' in the statements of comprehensive income.

Interest income on investments at FVOCI amounted to ₱0.20 million and ₱7.81 million in 2020 and 2019, respectively.

The movements in net unrealized losses on investments at FVOCI follow:

	2020	2019
Balance, beginning of year	(₱1,583,681)	(₱15,198,820)
Fair value changes taken to equity	29,663	21,497,004
Gains (loss) taken to profit or loss	1,554,018	(7,881,865)
Balance, end of year	₱—	(₱1,583,681)

9. Property and Equipment

The composition and movements of this account follow:

	2020				
	Transportation Equipment	Leasehold Improvement	Furniture, Fixtures and Office Equipment	Right-of-use Asset- Office Space	Total
Cost					
At January 1	₱7,535,842	₱4,424,253	₱11,134,289	₱—	₱23,094,384
Additions	1,125,000	2,791,417	1,492,949	35,826,625	41,235,991
Derecognitions	(1,712,500)	—	—	—	(1,712,500)
At December 31	6,948,342	7,215,670	12,627,238	35,826,625	62,617,875
Accumulated Depreciation					
At January 1	3,737,166	4,242,596	9,516,714	—	17,496,476
Depreciation	1,008,513	344,419	958,516	2,388,442	4,699,890
Derecognitions	(825,888)	—	—	—	(825,888)
At December 31	3,919,791	4,587,015	10,475,230	2,388,442	21,370,478
Net Book Value at December 31	₱3,028,551	₱2,628,655	₱2,152,008	₱33,438,183	₱41,247,397

	2019				
	Transportation Equipment	Leasehold Improvement	Furniture, Fixtures and Office Equipment	Right-of-use Asset- Office Space	Total
Cost					
At January 1	₱6,262,143	₱4,424,253	₱9,854,463	₱1,395,582	₱21,936,441
Additions	3,593,342	—	1,279,826	—	4,873,168
Derecognitions	(2,319,643)	—	—	(1,395,582)	(3,715,225)
At December 31	7,535,842	4,424,253	11,134,289	—	23,094,384
Accumulated Depreciation					
At January 1	4,631,058	4,161,257	8,697,029	—	17,489,344
Depreciation	997,921	81,339	819,685	1,395,582	3,294,527
Derecognitions	(1,891,813)	—	—	(1,395,582)	(3,287,396)
At December 31	3,737,166	4,242,596	9,516,714	—	17,496,475
Net Book Value at December 31	₱3,798,676	₱181,657	₱1,617,575	₱—	₱5,597,908



In 2020 and 2019, the Company sold transportation equipment for consideration aggregating to ₱0.89 million and ₱0.79 million, respectively, resulting in gains on sale amounting to nil and ₱0.36 million, respectively. These are recognized under Other income (loss) – miscellaneous in the statements of comprehensive income.

As of December 31, 2020 and 2019, the costs of fully depreciated assets still in use amounted to ₱15.87 million and ₱15.36 million, respectively.

In 2019, the Company derecognized right -of-use asset amounting to ₱1.40 million related to a lease agreement that the Company originally entered into on August 19, 2009 with an affiliate for its office space. In May 2019, the lease contract expired.

In 2020, the Company recognized right-of-use asset amounting to ₱33.44 million relating to a non-cancellable five-year lease agreement that the Company entered into on March 11, 2020 with an affiliate for its office space (Note 18). The initial annual rental rate is ₱7.44 million which will increase by five percent (5%) starting after the first year of the lease contract and will increase at the same rate every year thereafter.

There are no restrictions on titles of property and equipment and the Company does not have any contractual commitment for acquisition of property and equipment as of December 31, 2020 and 2019.

10. Software Costs

The movements in software costs follow:

	2020	2019
Cost		
At January 1	₱10,894,845	₱10,002,369
Additions	240,542	892,476
At December 31	11,135,387	10,894,845
Accumulated amortization		
At January 1	3,133,785	2,090,799
Amortization	1,290,303	1,042,986
At December 31	4,424,088	3,133,785
Net book value	₱6,711,299	₱7,761,060

11. Other Noncurrent Assets

This account consists of:

	2020	2019
Claims advances	₱6,401,785	₱6,401,785
Rental deposit (Note 18)	1,872,371	319,975
Others	89,978,412	89,978,412
	98,252,568	96,700,172
Allowance for impairment losses	(96,380,197)	(96,380,197)
	₱1,872,371	₱319,975



Claims advances pertain to insurance claims advanced by the Company on behalf of the insurance principals for emergency purposes to policyholders, which are mostly educational institutions. In 2019, the Company reversed allowance for impairment losses on recoveries from claims amounting to ₱0.11 million. As of December 31, 2020 and 2019, this account has been fully provided for with allowance for impairment losses.

'Others' represents miscellaneous assets which have been fully provided for with allowance for impairment losses and includes CWTs whose related certificates are awaiting submission to the Company amounting to ₱15.20 million. In 2019, the Company recognized provision for impairment losses on miscellaneous assets amounting to ₱6.74 million. As of December 31, 2020 and 2019, this account has been fully provided for with allowance for impairment losses.

12. Payable to Insurance Principals

This represents insurance premiums to be remitted to various insurance companies within 90 days from inception date of the policy. Unremitted insurance premiums are held in a fiduciary capacity and are presented as 'Payable to insurance principals' in the Company's balance sheets.

As of December 31, 2020 and 2019, the amount of premiums that are due to the insurance companies and unpaid by the policyholders for contracts sold through the Company's brokerage service, net of the related commission, amounted to ₱411.69 million and ₱243.32 million, respectively. These amounts are not recognized in the Company's balance sheets (see Note 6).

13. Other Liabilities

This account consists of:

	2020	2019
Financial liabilities		
Accounts payable – premium payments	₱170,025,203	₱76,932,684
Accounts payable – others	2,372,945	17,876,998
	172,398,148	94,809,682
Nonfinancial liabilities		
Deferred output VAT	1,216,508	1,557,470
VAT payable	3,316,248	103,248
Others	12,287,696	7,897,406
	16,820,452	9,558,124
	₱189,218,600	₱104,367,806

Accounts payable – premium payments include (a) insurance policy premiums collected but not yet due as of balance sheet date (b) excess payments; and (c) unidentified premium collections received through the Company's authorized banks. These premiums will be remitted to the respective insurance companies once identified.

Accounts payable - others include (a) premiums for refund to policyholders whose policies were cancelled; and (b) unidentified bank statement movements.

As of December 31, 2020 and 2019, 'Others' pertains mainly to unreleased operating expense checks, government contributions and other regulatory payments (i.e., SSS, HDMF and withholding taxes).



In 2019, certain other liability balances were settled at lower amounts resulting in the reversal of other liabilities and the recognition of an income presented under 'Other income (loss) - miscellaneous' account amounting to ₱9.78 million.

14. Retirement Plan

The Company has a funded noncontributory defined benefit retirement plan covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The latest actuarial valuation study of the retirement plan was made as of December 31, 2020.

The funds are administered by the Trust Department of CBC under the supervision of the Retirement Committee. The Retirement Committee is responsible for giving direction to the trustee on the investment of the assets of the fund. The Retirement Committee defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes into account the plan's objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Retirement Committee delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, a Director and a Controller.

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

As of December 31, 2020 and 2019, the principal actuarial assumptions used in determining the retirement liability for the Company's retirement plan are shown below:

	2020	2019
Discount rate	2.36%	4.47%
Future salary increases	6.00%	6.00%



The changes in the defined benefit obligation and fair value of plan assets are as follows:

	2020											
	Net benefit cost				Return on plan assets (excluding amount included in net interest)	Remeasurements in other comprehensive income				Benefits paid	Contribution	December 31, 2020
	January 1, 2020	Current service cost	Net interest	Subtotal		Actuarial changes arising from experiences adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal			
Present value of defined benefit obligation	₱10,174,203	₱2,647,459	₱454,787	₱3,102,246	₱–	(₱832,899)	(₱5,223,781)	₱4,200,239	(₱1,856,441)	₱–	₱–	₱11,420,008
Fair value of plan assets	(4,137,367)	–	(184,940)	(184,940)	310,249	–	–	–	310,249	–	(8,954,142)	(12,966,200)
Net defined benefit liability (asset)	₱6,036,836	₱2,647,459	₱269,847	₱2,917,306	₱310,249	(₱832,899)	(₱5,223,781)	₱4,200,239	(₱1,546,192)	₱–	(₱8,954,142)	(₱1,546,192)
	2019											
	Net benefit cost				Return on plan assets (excluding amount included in net interest)	Remeasurements in other comprehensive income				Benefits paid	Contribution	December 31, 2019
	January 1, 2019	Current service cost	Net interest	Subtotal		Actuarial changes arising from experiences adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal			
Present value of defined benefit obligation	₱7,131,053	₱1,878,863	₱522,706	₱2,401,569	₱–	₱1,620,603	(₱2,299,955)	₱3,039,933	₱2,360,581	(₱1,719,000)	₱–	₱10,174,203
Fair value of plan assets	(5,059,336)	–	(370,849)	(370,849)	(426,182)	–	–	–	(426,182)	1,719,000	–	(4,137,367)
Net defined benefit liability	₱2,071,717	₱1,878,863	₱151,857	₱2,030,720	(₱426,182)	₱1,620,603	(₱2,299,955)	₱3,039,933	₱1,934,399	₱–	₱–	₱6,036,836



The details of the remeasurement gains on retirement plan are as follows:

	2020	2019
At January 1	P8,268,540	P10,202,939
Remeasurement gains (losses) on retirement plan	1,546,192	(1,934,399)
Deferred tax liability during the year	(463,858)	-
Unrecognized deferred tax liability from previous years	(1,048,277)	-
At December 31	P8,302,597	P8,268,540

As of December 31, 2020 and 2019, the major categories of plan assets as a percentage of the total plan assets of the fund are as follows:

	2020		2019	
	Amount	%	Amount	%
Cash equivalents	P506,857	3.91%	P233	0.01%
UITF	12,428,356	95.85%	4,097,731	99.03%
Other assets	39,220	0.30%	48,658	1.18%
Other accountabilities	(8,233)	(0.06%)	(9,255)	(0.22%)
	P12,966,200	100.00%	P4,137,367	100.00%

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

	2020	2019
Less than one year	P-	P-
More than one year to five years	1,182,221	5,084,156
More than five years to 10 years	16,990,380	9,295,452
More than 10 years to 15 years	6,292,862	5,788,077
More than 15 years to 20 years	18,073,780	7,611,890
More than 20 years	605,214,850	537,282,475

The average duration of the defined benefit obligation as of December 31, 2020 is 4 years.

The Company does not expect to contribute to its defined benefit pension plan in 2021.

The sensitivity analysis below, determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of the balance sheet date assuming all other assumptions were held constant, illustrates the impact of key assumptions on the retirement benefit obligation:

	Increase (decrease)	
	2020	2019
Discount rate		
+1.00%	(P936,831)	(P723,152)
-1.00%	1,108,137	1,065,018
Salary increase rate		
+1.00%	1,003,672	991,928
-1.00%	(871,648)	(704,913)



15. Income Tax

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.00% and 15.00% on gross Philippine peso and US dollar denominated interest income, respectively, from bank deposits and investments.

RA No. 9337, *An Act Amending National Internal Revenue Code*, provides that starting January 1, 2009, the RCIT rate shall be 30.00% and that interest allowed as a deductible expense is reduced by an amount equivalent to 33.00% of interest income subject to final tax. It also provides that MCIT of 2.00% on modified gross income be computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years from the year of inception. In addition, the NOLCO incurred before taxable year 2020 is allowed as a deduction from taxable income in the next three years from the year of inception.

On September 30, 2020, the BIR issued Revenue Regulation No. 25-2020 implementing Section 4(bbbb) of “Bayanihan to Recover As One Act” which states that NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

Revenue Regulations No. 10-2002 defines expenses to be classified as entertainment, amusement and recreation (EAR) expenses and sets a limit for the amount that is deductible for tax purposes. The Company’s deductible EAR expenses are limited to 1.00% of net revenues.

EAR expenses of the Company amounted to ₱3.54 million and ₱2.45 million in 2020 and 2019, respectively.

Relevant Tax Updates

CREATE Bill

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity’s office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.
- Minimum corporate income tax (MCIT) rate is reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent



event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Company would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the prorated CIT rate of the Company for CY2020 is 27.5%. This will result in lower provision for current income tax for the year ended December 31, 2020 and higher income tax credit as of December 31, 2020, amounting to P23.71 million and P29.13 million, respectively, or a reduction of P2.78 million and an increase of P2.78 million, respectively. The revised amounts will be reflected in the Company's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.

The provision for income tax consists of:

	2020	2019
Current		
RCIT	P26,487,035	P25,756,016
Final tax	561,057	2,759,168
Deferred tax	(2,870,010)	(6,654,599)
	P24,178,082	P21,860,585

As of December 31, the details of net deferred tax asset follow:

	2020	2019
Deferred tax assets on:		
Allowance for credit losses	P11,896,252	P11,896,252
Past service cost	1,629,946	—
Pension liability	—	110,826
Accrued vacation leave credits	—	383,513
Others	686,126	—
Deferred tax liability on:		
Pension asset	(463,858)	—
	P13,748,466	P12,390,591

Deferred tax liabilities directly charged to OCI amounted to P1.51 million in 2020 and nil in 2019.

As of December 31, 2020 and 2019, the Company did not set up deferred tax assets on the following temporary differences as management assessed that these will not be realized in the future.

	2020	2019
Allowance for credit and impairment losses	P56,726,024	P56,726,024
Pension liability	—	5,667,415
	P56,726,024	P62,393,439



The reconciliation of the statutory income tax to the provision for income tax of the Company follows:

	2020	2019
Statutory income tax	₱26,352,577	₱27,339,884
Tax effects of:		
Change in unrecognized deferred tax asset	(2,364,989)	(4,200,034)
Tax paid income	(281,200)	(1,600,456)
Nondeductible expenses	471,694	321,191
Provision for income tax	₱24,178,082	₱21,860,585

16. Retained Earnings and Capital Management

On October 16, 2019, the BOD declared and approved cash dividends of ₱50.00 million for stockholders on record as of October 16, 2019, payable on December 19, 2019. The BOD also approved the reversal of previously appropriated retained earnings such that only ₱30.00 million pertaining to contingency fund for claims accommodation would remain as the only item with appropriated retained earnings.

On January 16, 2020, the BOD declared and approved cash dividends of ₱100.00 million for stockholders on record as of January 16, 2020, payable on February 21, 2020. On December 10, 2020, the BOD declared and approved cash dividends of ₱50.00 million for stockholders on record as of December 10, 2020, payable on December 21, 2020.

Capital Management

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

In May 2006, the Insurance Commission (IC) issued Insurance Memorandum Circular (IMC) 1-2006 integrating the compliance standards for the capitalization requirements for insurance brokers and reinsurance brokers. Under this IMC, adequate capitalization for existing brokers and new entrants is essential to attaining sustainable levels of profitability and for the long-term growth of the country's insurance industry.

IMC1-2006 promulgated that existing insurance or reinsurance brokers must have the following net worth for the following years:

Year	
December 31, 2006	₱2,000,000
December 31, 2007	4,000,000
December 31, 2008	6,000,000
December 31, 2009	8,000,000
December 31, 2010	10,000,000



As of December 31, 2020 and 2019, the Company's net worth is in compliance with the capital requirements of IC.

Centennial Stock Grant

In light of the Parent Company's 100th anniversary, its Board of Directors approved on August 5, 2020 a Centennial Stock Grant Plan to issue common shares to eligible grantees.

The Centennial Stock Grant Plan was approved and ratified by the stockholders on October 1, 2020, subject to the approval of the relevant regulatory agencies. New shares will be issued from the Parent Company's authorized but unissued shares in favor of the China Bank Group's regular employees and certain other officers and contractual employees as of August 16, 2020, numbering around 8,400. The stock grant will involve the issuance of around 5 million shares.

The stock grant awarded by the Parent Company to the Company's employees amounting to ₱0.66 million as of December 31, 2020 is recognized under 'Other equity – stock grants' in the Company's balance sheet.

17. Financial Risk Management Objectives and Policies

The Company's activities are principally related to the use of financial instruments, which consists of cash and cash equivalents, receivables, accrued interest receivables, claims advances, advances to officers and employees, investments at FVTPL and FVOCI, other noncurrent assets, accounts payable, accrued expenses and other liabilities (excluding statutory payables). Risks are inherent in these activities but are managed by the Company through a continuous process of identification, measurement, monitoring and mitigation of these risks partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls.

The main objectives of the Company's financial risk management are to identify and monitor possible risks on an ongoing basis, to minimize and mitigate such risks, and to provide a degree of certainty about costs. Exposure to credit, liquidity, foreign currency and market risks arise in the normal course of the Company's business activities.

Credit risk

The Company's exposure to credit risk is minimal as the cash and cash equivalents are deposits with CBC and CBI and the investments at FVOCI are issued by the Philippine government and highly-rated private companies. The investments at FVTPL pertain to investments in money market and cash funds placed in CBC's Trust Group.

Maximum exposure to credit risk

The carrying values of the Company's financial instruments as reflected in the balance sheets and related notes already represent the financial instruments' maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements.



The table below shows the credit quality by class of the Company's financial assets as of December 31, 2020 and 2019 (gross of allowance for credit losses):

	2020			Total
	Stage 1	Stage 2	Stage 3	
Cash and cash equivalents*	₱276,877,185	₱—	₱—	₱276,877,185
Receivables				
Accrued interest receivables	26,664	—	—	26,664
Other receivables	6,261,806	—	—	6,261,806
Investments at FVTPL	150,040,984	—	—	150,040,984
Other noncurrent assets				
Claims advances	—	—	6,401,785	6,401,785
Others	1,872,371	—	—	1,872,371
Total	₱435,079,010	₱—	₱6,401,785	₱441,480,795

* Excluding petty cash fund

	2019			Total
	Stage 1	Stage 2	Stage 3	
Cash and cash equivalents*	₱445,048,637	₱—	₱—	₱445,048,637
Receivables				
Accrued interest receivables	722,122	—	—	722,122
Other receivables	5,458,292	—	—	5,458,292
Investments at FVOCI				
Private securities	26,216,319	—	—	26,216,319
Other noncurrent assets				
Claims advances	—	—	6,401,785	6,401,785
Others	319,975	—	—	319,975
Total	₱477,765,345	₱—	₱6,401,785	₱484,167,130

* Excluding petty cash fund

Stage 1 (Neither past due nor specifically impaired) - those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

Stage 2 (Past due but not specifically impaired) – for investments measured at FVTPL and FVOCI that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but do not demonstrate objective evidence of impairment as of balance sheet date.

Stage 3 (Specifically impaired) - those that are considered in default or demonstrate objective evidence of impairment as of balance sheet date.

Impairment assessment

Financial assets at amortized cost

The credit risk for cash and cash equivalents is considered negligible since the counterparty is the Parent Company. Cash in bank and short-term placements are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

The credit risk for other assets, which consist of rental deposits and other receivables, are also considered negligible as the Company has ongoing agreements with the counterparties and the latter are considered to be with sound financial condition.



Financial assets at FVOCI

Debt securities at FVOCI are considered to have low credit risk, and therefore, the loss allowance during the period is determined to be equivalent to 12 months ECL. Management considers low credit risk for listed bonds with an investment grade credit rating from at least one major rating agency.

As of December 31, 2019, financial assets classified as stage 1 (neither past due nor specifically impaired) were assessed as high grade.

Liquidity risk

Liquidity risk is the risk of loss to earnings or capital due to the inability to meet funding requirements within a reasonable period of time at a reasonable price.

The Company monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Company maintains a level of cash deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows.

The table below summarizes the maturity profile of the Company's financial assets used for liquidity purposes and financial liabilities based on contractual undiscounted payments as of December 31, 2020 and 2019:

	2020				Total
	On demand	Less than 3 months	Within 3 to 12 months	More than one year	
Financial Assets					
Cash and cash equivalents*	P237,007,558	P40,024,056	P—	P—	P277,031,614
Receivables					
Accrued interest receivable	26,664	—	—	—	26,664
Other receivables	6,261,806	—	—	—	6,261,806
Investments at FVTPL	150,040,984	—	—	—	150,040,984
Other noncurrent assets	—	—	—	1,872,371	1,872,371
	P393,337,012	P40,024,056	P—	P1,872,371	P435,233,439
Financial Liabilities					
Payable to insurance principals - net	P37,950,352	P—	P—	P—	P37,950,352
Accrued expenses	4,828,948	—	—	—	4,828,948
Lease liability	—	1,617,927	4,696,284	26,654,071	32,968,282
Other liabilities					
Advance premium payments	170,025,203	—	—	—	170,025,203
Accounts payable	2,372,945	—	—	—	2,372,945
	P215,177,448	P1,617,927	P4,696,284	P26,654,071	P248,145,730

* Excluding petty cash fund

	2019				Total
	On demand	Less than 3 months	Within 3 to 12 months	More than one year	
Financial Assets					
Cash and cash equivalents*	P285,667,643	P160,185,496	P—	P—	P445,853,139
Receivables					
Accrued interest receivable	722,122	—	—	—	722,122
Other receivables	5,458,292	—	—	—	5,458,292
Investments at FVOCI	—	26,540,456	—	—	26,540,456
Other noncurrent assets	—	—	—	319,975	319,975
	P291,848,057	P186,725,952	P—	P319,975	P478,893,984
Financial Liabilities					
Payable to insurance principals	P67,480,114	P—	P—	P—	P67,480,114
Accrued expenses	5,176,082	—	—	—	5,176,082
Other liabilities					
Advance premium payments	76,932,684	—	—	—	76,932,684
Accounts payable	17,876,998	—	—	—	17,876,998
	P167,465,878	P—	P—	P—	P167,465,878

* Excluding petty cash fund



The Company's obligation to insurance companies to remit collections from policyholders begins after 90 days from inception date of the policy, thus it is on demand when the account is already more than 90 days. However, the Company is not liable to remit when there is no collection.

Foreign currency risk

The Company's foreign currency exposure arises from US dollar-denominated cash in bank. Approximately 2.37% and 1.71% of the total cash in bank is denominated in US dollar as of December 31, 2020 and 2019, respectively.

Dollar-denominated financial assets are as follows:

	2020	2019
US dollar value	\$116,963	\$96,572
Philippine peso value	₱5,616,905	₱4,889,923

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates of ₱48.023 per \$1.00 and ₱50.635 per \$1.00, with all other variables held constant, of the Company's income before tax (due to changes in the fair value of monetary assets) as of December 31, 2020 and 2019, respectively. There is no other impact on the Company's equity other than those already affecting the statement of comprehensive income.

Increase/decrease in US dollar rate	Effect on profit before tax	
	2020	2019
+2.00%	₱112,338	₱97,798
-2.00%	(112,338)	(97,798)

The increase in exchange rate above represents depreciation of the Philippine Peso while the decrease represents stronger Philippine Peso value.

18. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Corporate entities are also considered to be related if they are subject to common control or common significant influence. Transactions between related parties are based on terms similar of those offered to non-related parties.

In the ordinary course of business, the Company has normal banking and other transactions with its related parties. The effects of these transactions are reflected in the appropriate accounts in the financial statements.

The significant amount/volume, outstanding balances, and nature, terms and conditions with respect to related party transactions included in the financial statements follow:

Transactions with the Retirement Plan

The retirement fund of the Company's employees amounting to ₱12.97 million and ₱4.14 million as of December 31, 2020 and 2019, respectively, is being managed by the Parent Company's Trust Group.



The Company's retirement plan asset includes investment in UITF launched by the Trust Department of the Parent Company.

Transactions with Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

The remuneration of the Company's key management personnel (included under 'Compensation and fringe benefits' in the statements of comprehensive income) amounted to ₱4.63 million and ₱5.37 million for 2020 and 2019, respectively.

Other related party transactions

December 31, 2020				
Related Party	Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
China Bank Banking Corporation (Parent)	Cash in bank		₱178,547,583	These are demand deposit accounts which earn interest at the prevailing bank deposit rates.
	Deposits	₱1,177,461,617		
	Withdrawals	(1,286,642,367)		
	Interest income	380,495		Interest income from cash in bank.
	Short-term investments		—	These are special savings deposit account which earn interest of 0.50%-3.20% and mature within three months or less.
	Placements	254,320,805		
	Maturities	(376,104,824)		
	Interest income	1,170,932		Interest income from time deposits.
	Investment at FVTPL	150,000,000	150,040,984	These are money market and cash funds placed in the Trust Group
	Other Receivables		657,203	These are non-interest bearing advances to CBC.
	Cash dividends	150,000,000		Dividends were declared and paid during the year (Note 16).
China Bank Savings, Inc. (CBSI) (Affiliate)	Cash in bank		58,333,987	These are demand deposit accounts which earn interest at the prevailing bank deposit rates.
	Deposits	198,451,454		
	Withdrawals	(148,102,484)		
	Interest income	139,296		Interest income from cash in bank.
	Short-term investments		40,022,279	These are special savings deposit accounts which earn interest of 1.0% and mature within three months or less.
	Placements	239,492,183		
	Maturities	(239,492,183)		
	Interest income	502,451		Interest income from time deposits.
	Security deposit		1,872,371	This pertains to rental deposit for office space leased from CBSI (Note 11).
December 31, 2019				
Related Party	Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
China Bank Banking Corporation (Parent)	Cash in bank		₱287,347,838	These are demand deposit accounts which earn interest at the prevailing bank deposit rates.
	Deposits	₱1,342,092,975		
	Withdrawals	(1,145,910,519)		
	Interest income	256,539		Interest income from cash in bank.
	Short-term investments		120,613,087	These are special savings deposit account which earn interest of 3.00%-5.50% and mature within three months or less.
	Placements	495,616,569		
	Maturities	(496,669,282)		
	Interest income	5,263,565		Interest income from time deposits.
	Other Receivables		207,268	These are non-interest bearing advances to CBC.
	Cash dividends	50,000,000		Dividends were declared and paid during the year.(Note 16)
China Bank Savings, Inc. (CBSI) (Affiliate)	Cash in bank		7,845,721	These are demand deposit accounts which earn interest at the prevailing bank deposit rates.
	Deposits	133,889,840		
	Withdrawals	(139,064,239)		
	Interest income	69,535		Interest income from cash in bank.
	Short-term investments		39,519,828	These are special savings deposit accounts which earn interest of 3.00% and mature within three months or less.
	Placements	156,467,635		
	Maturities	(156,704,440)		
	Interest income	1,184,026		Interest income from time deposits.
	Security deposit		319,975	This pertains to rental deposit for office space leased from CBSI (Note 11).

(Forward)



	Accounts Payable		2,800,644	These pertain to rental deposits and lease for office space leased from CBSI (Note 11).
Related Party	Nature of Transaction	2020	2019	Nature, Terms and Conditions
China Banking Corporation (Parent)	Management and professional fees	₱200,000	₱370,000	Annual fee paid to CBC for human resources function provided by CBC such as recruitment and placement, training and development, salary and benefits development, systems and research, and employee benefits. CBC also provided CIBI with administrative function such as procurement and inventory, messengerial and office maintenance services.
PCCI (Affiliate)	Management and professional fees	250,000	250,000	Annual fees paid to PCCI for information technology related function provided by PCCI to CIBI.
CBSI (Affiliate)	Leases	7,120,057	3,806,594	Annual rental cost of office space lease from CBSI. The non-cancellable lease is for a period of five years and renewable upon mutual agreement (Note 11).

19. Leases

The Company has lease contracts for its office space for five (5) years, with an option to renew the lease term under mutually acceptable terms and conditions. The Company's obligations under its lease are secured by the lessor's title to the leased asset. Generally, the Company is restricted from assigning and subleasing the leased asset.

The following are the amounts recognized in statements of comprehensive income:

	2020	2019
Depreciation expense of right-of-use asset included in property and equipment (Note 9)	₱2,388,442	₱1,395,582
Interest expense on lease liability	262,276	31,891
	₱2,650,718	₱1,427,473

The interest expense is included under 'miscellaneous expense' account.

The rollforward analysis of lease liability follows:

	2020	2019
As at January 1	₱—	₱1,869,956
Renewal	35,826,625	—
Accretion of interest	262,276	31,891
Payments	(3,120,619)	(1,901,847)
As at December 31	₱32,968,282	₱—

20. Covid-19 Pandemic

In late 2019, a cluster of cases displaying the symptoms of a 'pneumonia of unknown cause' were identified in Wuhan, the capital of China's Hubei province. On December 31, 2019, China alerted the World Health Organization (WHO) of the coronavirus disease 2019 (COVID-19) or coronavirus outbreak. On January 30, 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a 'Public Health Emergency of International Concern'. Since then, the virus has spread worldwide. On March 11, 2020, the WHO announced that the coronavirus outbreak can be characterized as a pandemic. The virus has greatly impacted the economic activities.



In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. As of April 29, 2021, different parts of the country remain to be under varying degree of community quarantine.

The Company was also affected by this and for purposes of risk assessment, the Company considered the prolonged effects of the pandemic in the economy and consumer outlook. Likewise, the high potential exposure of employees to Covid 19 due to current variants which are more infectious and hitting close to home.

The Company complied with the government mandate of 50% work force capacity by adopting CBC's strategy of work-from-home (WFH) and onsite alternate workforce schedule. The employees were also provided with laptops for them to be able to fully maximize the WFH arrangements. Further, management approved the Company's transitioning to paperless transaction, in particular, the official use of e-policies as another legal form of insurance contract last May 20, 2020.

21. Approval of the Release of Financial Statements

The accompanying financial statements of the Company were authorized for issue by the BOD on April 29, 2021.

22. Supplementary Information Required Under Revenue Regulations 15-2010

On November 25, 2010, the BIR issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. RR 15-2010 provides that starting 2010, the notes to financial statements shall include information on taxes and license fees paid or accrued during the taxable year.

The Company reported and/or paid the following types of taxes in 2020:

Input VAT

	Amount
Beginning of the year	P154,658
Current year's purchases:	
Goods other than for resale or manufacture	343,873
Services lodged under other accounts	1,516,271
Claims for tax refund and other adjustments	(1,963,061)
Balance at end of year	P51,741

Output VAT

The Company is a VAT-registered company with VAT output tax declaration of P26.98 million for the year based on the amount of commission income from premiums remitted to insurance companies in 2020 amounting P192.77 million. Commission income reported in the Company's financial statements reflect amounts collected or earned from completed brokerage services.

As of December 31, 2020, the Company's output VAT payable amounted to P3.32 million.



The Company's sales of services are based on actual collections received, hence, may not be the same as amounts recognized in the statement of income.

Withholding Taxes

Details of total remittances of withholding taxes in 2020 and amounts outstanding as of December 31, 2020 are as follows:

	Total Remittance	Balance
Withholding taxes on compensation and benefits	₱4,466,455	₱233,337
Expanded withholding taxes	4,682,922	1,365,725
	₱9,149,377	₱1,599,062

Taxes and Licenses

In 2020, taxes and licenses of the Company consist of:

Business licenses	₱1,675,110
Others	310,100
	₱1,985,210

As of December 31, 2020 and 2019, there are no outstanding tax assessments and tax cases under investigation, litigations nor prosecution in courts or bodies outside the BIR.

