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Bureau of Internal Revenue**



Independent Auditor's Report

To the Board of Directors and Shareholders of
Ayala Plans, Inc.
8th Floor BPI Buendia Center,
Sen. Gil J. Puyat Ave., Makati City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ayala Plans, Inc. (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 the accounting principles generally accepted in the Philippines for pre-need companies as described in Note 25 to the financial statements.

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2020 and 2019;
- the statements of income for the years ended December 31, 2020 and 2019;
- the statements of total comprehensive income for the years ended December 31, 2020 and 2019;
- the statements of changes in equity for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

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.

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 financial reporting standards in the Philippines for pre-need companies as described in Note 25 to the financial statements, 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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



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

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

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



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Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 26 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 supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

A handwritten signature in blue ink, appearing to read "Imelda Dela Vega-Mangundaya", is written over the printed name and title.

Imelda Dela Vega-Mangundaya
Partner

CPA Cert. No. 0090670

PTR No. 0024586, issued on January 5, 2021, Makati City

SEC A.N. (individual) as general auditors 90670-SEC, Category A, valid to audit 2019 to 2023
financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024
financial statements

TIN 152-015-124

BIR A.N. 08-000745-047-2018, issued on December 10, 2018; effective until December 9, 2021

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
April 15, 2021



Statement Required by Section 8-A, Revenue Regulations No. V-1

To the Board of Directors and Shareholders of
Ayala Plans, Inc.
8th Floor BPI Buendia Center,
Sen. Gil J. Puyat Ave., Makati City

None of the partners of the firm has any financial interest in the Ayala Plans, Inc. or any family relationships with its president, manager, or principal shareholder.

The supplementary information on taxes and licenses is presented in Note 26 to the financial statements.

Isla Lipana & Co.

Imelda Dela Vega-Mangundaya
Partner

CFA Cert. No. 0090670

PTR No. 0024586, issued on January 5, 2021, Makati City

SEC A.N. (individual) as general auditors 90670-SEC, Category A, valid to audit 2019 to 2023
financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024
financial statements

TIN 152-015-124

BIR A.N. 08-000745-047-2018, issued on December 10, 2018; effective until December 9, 2021

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
April 15, 2021

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Ayala Plans, Inc.

Statements of Financial Position

December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
<u>ASSETS</u>			
CASH	2	28,837,906	18,435,750
INVESTMENTS IN TRUST FUNDS	3	3,769,318,153	4,003,789,946
INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	4		
Company-managed		1,416,288	2,468,272
Insurance premium fund		4,156,302	5,537,852
INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	4		
Company-managed		6,795,757	8,978,454
Insurance premium fund		15,576,234	16,518,308
OTHER INVESTMENTS		3,000,000	-
LOANS AND RECEIVABLES, net	5	3,195,326	3,299,571
PROPERTY AND EQUIPMENT, net	6	1,569,038	2,038,982
OTHER ASSETS	7	2,529,515	2,740,250
Total assets		3,836,394,519	4,063,807,385
<u>LIABILITIES AND EQUITY</u>			
PRE-NEED RESERVES	3	2,715,597,988	3,030,702,670
INSURANCE PREMIUM RESERVES	4	16,279,218	18,826,621
DUE TO PARENT BANK	20	338,303	20,282,707
ACCRUED EXPENSES AND OTHER LIABILITIES	8	609,667,286	430,848,843
Total liabilities		3,341,882,795	3,500,660,841
SHARE CAPITAL	10	100,000,000	100,000,000
SHARE PREMIUM		775,000,000	775,000,000
DEFICIT		(600,336,844)	(457,760,563)
ACCUMULATED OTHER COMPREHENSIVE INCOME	10	219,848,568	145,907,107
Total equity		494,511,724	563,146,544
Total liabilities and equity		3,836,394,519	4,063,807,385

(The notes on pages 1 to 40 are integral part of these financial statements)

Ayala Plans, Inc.

Statements of Income

For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
INCOME			
Premium income, gross of trust fund contribution of P10,956 (2019 - P46,590)		9,930	47,849
Trust fund income, gross of provision for income tax of P28,299,578 (2019 - P37,109,042)	3	156,658,517	237,566,237
Interest income	12	1,103,771	916,194
Gain on sale of investments	4	2,207,736	857,809
Fair value losses on investments		(430,983)	(26,234)
Policy income		15,718	151,183
Dividend income	20	69,327	116,399
Others		4,526	3,125
		159,638,542	239,632,562
EXPENSES			
Costs of contracts issued	13		
Plan benefits		569,624,429	589,240,090
Decrease in pre-need and insurance premium reserves		(317,652,085)	(415,555,337)
Documentary stamp taxes and SEC registration fees		116	-
Other direct costs and expenses	14		
Insurance		3,826,147	4,426,007
General and administrative expenses			
Salaries, wages and employee benefits	15	8,721,576	10,233,029
Outsourcing services		5,386,918	6,972,316
Interest expense	17,20	1,450,403	662,617
Professional fees		633,584	361,143
Depreciation		399,436	566,518
Taxes and licenses		334,797	214,373
Occupancy costs	17	180,472	391,861
Office supplies		67,240	343,829
Janitorial and messengerial services		5,026	64,857
Communication		2,327	13,398
Repairs and maintenance		-	219,136
Advertising and promotions		-	148,291
Others		739,194	704,862
		273,719,580	199,006,990
(LOSS) INCOME BEFORE INCOME TAX		(114,081,038)	40,625,572
INCOME TAX EXPENSE	18	28,495,243	37,271,571
NET (LOSS) INCOME FOR THE YEAR		(142,576,281)	3,354,001

(The notes on pages 1 to 40 are integral part of these financial statements)

Ayala Plans, Inc.

Statements of Total Comprehensive Income

For the years ended December 31, 2020 and 2019

(All amounts in Philippine Peso)

	Notes	2020	2019
NET (LOSS) INCOME FOR THE YEAR		(142,576,281)	3,354,001
OTHER COMPREHENSIVE INCOME	10		
Item that may be subsequently reclassified to profit or loss			
Changes in fair value of investments at fair value through other comprehensive income		76,854,793	216,678,372
Item that will not be reclassified to profit or loss			
Remeasurement loss on retirement benefit obligation	16	(2,913,332)	(2,719,564)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		73,941,461	213,958,808
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		(68,634,820)	217,312,809

(The notes on pages 1 to 40 are integral part of these financial statements)

Ayala Plans, Inc.

Statements of Changes in Equity

For the years ended December 31, 2020 and 2019

(All amounts in Philippine Peso)

	Share capital (Note 10)	Share premium (Note 10)	Accumulated comprehensive income (loss) (Note 10)	Deficit	Total
Balance, January 1, 2019	100,000,000	775,000,000	(68,051,701)	(461,114,564)	345,833,735
Comprehensive loss					
Net income for the year	-	-	-	3,354,001	3,354,001
Other comprehensive income	-	-	213,958,808	-	213,958,808
Total comprehensive income for the year	-	-	213,958,808	3,354,001	217,312,809
Balance, December 31, 2019	100,000,000	775,000,000	145,907,107	(457,760,563)	563,146,544
Comprehensive income (loss)					
Net loss for the year	-	-	-	(142,576,281)	(142,576,281)
Other comprehensive income	-	-	73,941,461	-	73,941,461
Total comprehensive income (loss) for the year	-	-	73,941,461	(142,576,281)	(68,634,820)
Balance, December 31, 2020	100,000,000	775,000,000	219,848,568	(600,336,844)	494,511,724

(The notes on pages 1 to 40 are integral part of these financial statements)

Ayala Plans, Inc.

Statements of Cash Flows

For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash absorbed by operations	19	(397,571,188)	(540,505,772)
Dividends received		69,327	116,399
Interest received		1,169,032	718,351
Final income taxes paid	18	(28,495,243)	(37,271,571)
Net cash used in operating activities		(424,828,072)	(576,942,593)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net withdrawals from trust funds	3	440,840,092	613,624,153
Acquisitions of:			
Investments at fair value through other comprehensive income	4	(47,476,174)	(51,071,706)
Property and equipment	6	-	(36,496)
Proceeds from disposals and maturities of investments at fair value through other comprehensive income		57,524,070	15,224,978
Net cash from investing activities		450,887,988	577,740,929
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds on borrowings from Parent Bank	20	35,000,000	15,000,000
Payment of borrowings from Parent Bank		(50,000,000)	-
Payments on lease liabilities, including interest	17	(657,760)	-
Net cash (used in) from financing activities		(15,657,760)	15,000,000
NET INCREASE IN CASH		10,402,156	15,798,336
CASH			
January 1	2	18,435,750	2,637,414
December 31		28,837,906	18,435,750

(The notes on pages 1 to 40 are integral part of these financial statements)

Ayala Plans, Inc.

Notes to the Financial Statements

As at and for the years ended December 31, 2020 and 2019

(All amounts are shown in Philippine Peso, unless otherwise stated)

1 - General information

Ayala Plans, Inc. (the “Company”) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on November 23, 1994, primarily to engage in selling education and pension pre-need plans. The Company is a subsidiary of Bank of the Philippine Islands (BPI or the Parent Bank), a domestic commercial bank with an expanded banking license, which is also its ultimate parent.

The Company has 7 regular employees as at December 31, 2020 (2019 - 9).

In July 2019, the SEC approved the Company’s registration of its new office address, which is also its principal place of business, at 8th Floor BPI Buendia Center, Sen. Gil J. Puyat Ave., Makati City.

The pandemic which broke out in March 2020 forced governments all over the world, including the Philippines, to implement community lockdowns and quarantines to mitigate the spread of the virus. Unfortunately, these lockdowns caused the demands for goods and services to plummet which ultimately led to the contraction of both the global and domestic economies.

In response to the growing number of COVID-19 cases in the country, Republic Act (RA) No. 11469, otherwise known as “Bayanihan to Heal as One Act” and RA No. 11494, otherwise known as “Bayanihan to Recover as One Act” (or simply the “Bayanihan Acts”) was enacted in March 2020 which granted the President of the Republic of the Philippines additional powers to combat the pandemic and aid certain vulnerable sectors of the economy.

The pandemic remains the topmost concern of the government and businesses alike. The Philippine economy is gradually opening with the imposition of less stringent community quarantine protocols. Likewise, the vaccination program of the government is expected to commence in 2021 which is hoped to slow down the spread of the virus and boost confidence among businesses and consumers.

Overall, the COVID-19 outbreak did not have significant impact on the Company’s business operations, results of operations, financial position and cash flows in 2020, including its going concern assessment in the next 12 months. While the pandemic still poses some risk and uncertainties, the Company, however, remains confident on its ability to absorb some conceivable financial shocks that may rise due to volatile economic conditions.

These financial statements have been approved and authorized for issuance by the Company’s Board of Directors (the “Board”) on April 12, 2021. There are no material events that occurred subsequent to April 12, 2021 until April 15, 2021.

2 - Cash

The account as at December 31, 2020 and 2019 consists entirely of cash in banks.

Cash in banks as at December 31 are maintained in the following currencies:

	2020	2019
Peso-denominated	28,837,906	17,788,869
US Dollar-denominated	-	646,881
	28,837,906	18,435,750

Cash in banks bear interest rates ranging from 0.25% to 0.35% in 2020 and 2019. Interest earned from cash in banks amounts to P75,389 for the year ended December 31, 2019 (2019 - P55,869) (Note 12).

US dollar-denominated cash in bank at December 31, 2019 amounted to US \$12,768. Exchange rate used as at December 31, 2019 is P50.64 to US \$1. No such cash in bank is maintained in US dollar as at December 31, 2020.

3 - Investments in trust funds

The Company has trust funds which are being administered by BPI Asset Management and Trust Company (BPI-AMTC) under trust agreements for the fulfillment of the Company's obligations under its pre-need plans. In compliance with the implementing rules and regulations of the Pre-need Code and in accordance with the terms of the trust agreements, no withdrawal shall be made from the Trust Funds except to: (a) pay all costs, expenses, and charges incurred in connection with the administration, preservation, maintenance, and protection of the fund or any part thereof, inclusive of insurance expenses needed for the payment of benefits; (b) settle, compromise, or abandon all claims and demands in favor of or against the fund, with prior written consent of the Company; and (c) engage in investing activities. Accumulated trust fund income included in the Company's deficit account amounts to P6,101 million for the year ended December 31, 2020 (2019 - P5,972 million).

The Company has classified and measured its investments in trust funds based on the business model and the contractual terms of the cash flows arising from its investments. In the determination of the business model, the Company considers its past experience on how the cash flows for these investments were collected, how the investments' performance is evaluated and the risks are assessed and managed.

The Company's investments in trust funds at December 31 consist of the following:

	2020			2019
	Education	Pension	Total	
Assets				
Cash	21,514	8,002	29,516	10,922
Investments at fair value through profit or loss (FVTPL)				
Investment in shares of stock	198,001,701	685,255,828	883,257,529	862,526,188
Unit investment trust fund	45,729,222	71,728,788	117,458,010	100,648,258
Investment at fair value through other comprehensive income (FVOCI)				
Investments in government securities, net	497,569,054	1,752,438,401	2,250,007,455	2,649,457,661
Other debt instruments	66,631,555	142,137,450	208,769,005	362,261,200
Deposit instruments	117,850,000	110,500,000	228,350,000	430,405
Accrued interest income	7,718,356	32,947,721	40,666,077	46,808,583
Other receivables	17,484,756	24,901,764	42,386,520	7,430,468
Total assets	951,006,158	2,819,917,954	3,770,924,112	4,029,573,685
Payables	(410,931)	(1,195,028)	(1,605,959)	(25,783,739)
Net assets	950,595,227	2,818,722,926	3,769,318,153	4,003,789,946

	2020			2019
	Education	Pension	Total	
Fund balance				
January 1	1,122,627,018	2,881,162,928	4,003,789,946	4,202,419,786
Translation difference	-	(142,334)	(142,334)	(155,864)
Additional contributions	10,956	-	10,956	46,590
Withdrawals	(207,909,638)	(232,941,410)	(440,851,048)	(613,670,743)
Net change in fair value reserve	6,100,499	72,051,195	78,151,694	214,692,982
Sub-total	920,828,835	2,720,130,379	3,640,959,214	3,803,332,751
Income for the year, net of tax of P28,299,578 (2019 - P37,109,042)	29,766,392	98,592,547	128,358,939	200,457,195
December 31	950,595,227	2,818,722,926	3,769,318,153	4,003,789,946

The terms of investments in trust funds until contractual maturity is discussed in Note 9.

Investments in trust funds covering pension plan, includes assets and liabilities denominated in US Dollars (Note 23.2.1). Details of which at December 31 follow:

	2020	2019
Assets		
Cash	-	116
Investment in government securities	-	55,043
Deposit instruments	-	8,500
Accrued interest income	-	1,278
Total assets	-	64,937
Liability		
Accrued trust fee payable	-	29
Net assets	-	64,908
Fund balance		
At January 1	64,908	77,236
Withdrawals	(68,779)	(19,000)
Net change in fair value reserve	(11,490)	3,889
Sub-total	(15,361)	62,125
Income for the year, net of tax	15,361	2,783
At December 31	-	64,908

The dollar-denominated investments in trust fund is carried in the financial statements at December 31, 2019 at P3.3 million using exchange rate of P50.64 to US \$1. On August 7, 2020, the Insurance Commission approved the request of the Company to terminate its trust agreement for its dollar pension fund after all the plans have matured and settled in August 2019.

As at December 31, 2019, cash bears effective interest rates of 2.5%.

Investments in shares of stock include listed common shares of related companies (Note 20).

Unit investments in trust funds pertain to placements in BPI's Short-Term Fund managed by a related party (Note 20).

Investments in peso-denominated government securities bear effective interest at rates in 2020 ranging from 2.8% to 12% (2019 - 2.7% to 14.6%). Interest income earned on these investments, net of tax, amounts to P99.73 million for the year ended December 31, 2020 (2019 - P107.2 million).

Dollar-denominated government securities pertain to Republic of the Philippines (ROP) bonds bearing interest rates ranging from 7.75% to 10.63% in 2019. Interest income on these investments amounts to US \$1,704 for the year ended December 31, 2020 (2019 - US \$2,782).

Other debt instruments pertain to fixed rate bonds of various private corporations. Interest income earned on other debt instruments amounts to P13 million for the year ended December 31, 2020 (2019 - P18.4 million).

Aggregate dividends received on listed common stocks amount to P24.81 million for the year ended December 31, 2020 (2019 - P22.2 million).

Peso-denominated deposit instruments pertain to special deposit accounts maintained with the Bangko Sentral ng Pilipinas carrying prevailing market interest rate and maturing in less than one (1) year. Dollar-denominated deposit instruments pertain to time deposits with the Parent bank carrying prevailing market interest rate and maturing in less than one (1) year.

Other receivables include dividend receivables and due from brokers which represent receivables for securities sold that have been contracted for but not yet settled or delivered at the end of the reporting period.

Movements in the investments at FVOCI for the years ended December 31 follow:

	2020	2019
At January 1	3,012,149,266	3,430,657,541
Additions	11,975,883,261	21,898,791,739
Maturities/disposals	(578,828,130)	(22,503,234,543)
Changes in net unamortized premium	(11,800,229,631)	(28,758,454)
Increase in fair value	78,151,694	214,692,983
At December 31	2,687,126,460	3,012,149,266

The aggregate net gain recognized from disposal of investments at FVOCI amounts to P2.2 million for the year ended December 31, 2020 (2019 - P0.8 million).

Fair value loss recognized from investments at FVTPL amounts to P18.9 million for the year ended December 31, 2020 (2019 - P12.4 million).

Pre-need reserves at December 31, 2020 amounting to P2.7 billion (2019 - P3.0 billion) are fully matched by the balance of the trust funds. As at December 31, 2020, the balance of investment in trust funds in excess of the pre-need reserves set-up amounts to P1,053.7 million (2019 - P973.1 million).

4 - Investments at FVTPL; Investments at FVOCI

The company-managed investments at December 31 consist of:

	2020		2019	
	Investments at FVTPL	Investments at FVOCI	Investments at FVTPL	Investments at FVOCI
Government securities	-	5,535,757	-	5,378,454
Listed equity securities	423,120	-	500,269	-
Mutual fund	993,168	-	1,968,003	-
Club share	-	-	-	3,600,000
Deposits	-	1,260,000	-	-
	1,416,288	6,795,757	2,468,272	8,978,454

The Company's insurance premium fund at December 31 consists of:

	2020		2019	
	Investments at FVTPL	Investments at FVOCI	Investments at FVTPL	Investments at FVOCI
Government securities	-	14,426,234	-	16,518,308
Listed equity securities	3,549,149	-	3,909,862	-
Mutual fund	607,153	-	1,627,990	-
Deposits	-	1,050,000	-	-
	4,156,302	15,476,234	5,537,852	16,518,308

The Company's insurance premium fund is restricted to cover the payment of insurance premium reserves. At December 31, 2020, insurance premium reserves amount to P16.3 million (2019 - P18.8 million).

As at December 31, 2020 and 2019, all investments are denominated in Philippine peso.

The movements in investments at FVOCI for the years ended December 31 follow:

	2020	2019
At January 1	25,496,762	9,363,280
Additions	47,476,174	51,071,706
Disposals	(3,066,823)	(14,393,403)
Amortization of discount	(46,237,221)	(22,530,211)
Fair value (loss) gain	(1,296,901)	1,985,390
At December 31	22,371,991	25,496,762

Investments in government securities bear effective interest at rates ranging from 5.0% to 6.4% in 2020 and 2019. Interest income earned on these investments amounts to P0.9 million for the year ended December 31, 2020 (2019 - P0.8 million) (Note 12).

Investments in listed equity securities include listed common shares of related parties (Note 20). Aggregate dividends received on all listed common stocks amount to P0.1 million (2019 - P0.1 million).

Investments in mutual fund pertain to placements in Ayala Life Fixed-income Mutual fund Peso Bond Fund, a related party under common control (Note 20).

The club share in 2019 pertains to the investment with Baguio Country Club. In 2020, the investment was pulled out from the company-managed fund held by the trustee and the related share certificate was already in the possession of the Company. The related club share is presented as part of other investment in the statement of financial positions as at December 31, 2020.

Investments in unit investment trust fund pertain to placements in BPI Invest Short-term Fund, a related party under common control (Note 20).

The aggregate net gain recognized from disposal of investments at FVOCI for the year ended December 31, 2020 amounts to P0.3 million (2019 - P0.9 million). Proceeds from sale amount to P3.4 million (2019 - P15.3 million).

The Company's investments are under the custodianship of BPI-AMTC (Note 20).

5 - Loans and receivables, net

The account at December 31 consists of:

	Note	2020	2019
Receivable from sales counselors		2,024,295	2,024,295
Loans and advances to employees		937,702	1,152,607
Accrued interest income		235,457	287,456
Others		2,022,167	1,859,508
		5,219,621	5,323,866
Allowance for impairment		(2,024,295)	(2,024,295)
		3,195,326	3,299,571

Other receivables pertain mainly to taxes receivable.

The detailed accounting policy for expected credit losses (ECL) is disclosed in Note 25.2.4 and information on the credit quality of loans and receivables is presented in Note 23.2.4.

6 - Property and equipment, net

Details of property and equipment at December 31 follow:

	2020	2019
Opening net book value	2,038,982	782,469
Additions	-	1,823,032
Depreciation	(399,436)	(566,518)
Adjustment	(70,508)	-
Closing net book value	1,569,038	2,038,982
Cost	5,445,378	5,515,887
Accumulated depreciation	3,876,340	3,476,904
Net book value	1,569,038	2,038,982

The account consists of furniture, equipment and leasehold improvement.

The adjustment in 2020 relates to lease modification (Note 17), following the change in the terms of the lease.

The additions in 2019 include the right-of-use asset recognized from the long-term lease of its office space entered in March 2019 (Note 17).

In 2019, the Company has retired certain fully depreciated computer equipment amounting to P493,543.

7 - Other assets

The account at December 31 consists of:

	2020	2019
Input and prepaid documentary tax	2,367,750	2,314,558
Prepaid expenses	45,358	163,066
Others	116,407	262,626
	2,529,515	2,740,250

8 - Accrued expenses and other liabilities

The account at December 31 consists of:

	Note	2020	2019
Planholders' deposits		591,438,091	415,498,729
Retirement benefit obligation	16	16,249,911	12,273,738
Lease liability		1,204,609	1,885,808
Withholding taxes payable		264,542	174,167
Accrued expenses		102,322	537,944
Social contributions		69,546	37,677
Others		338,265	440,780
		609,667,286	430,848,843

Planholders' deposits represent any of the following: (a) plan benefits that are due but remain unpaid to and/or unclaimed by the planholder; (b) payment received with application for a new plan that has not yet been issued; (c) any fractional payments of a regular installment; and (d) payments received with application for the reinstatement of lapsed plan, within two years from date of lapse, with pending approval.

The Company measured its lease liability using the Company's incremental borrowing rate.

9 - Assets and liabilities by maturities

Details of assets and liabilities by maturities at December 31 follow:

2020	Up to 1 year	Over 1 year up to 3 years	Over 3 years	Total
Assets				
Cash	28,837,906	-	-	28,837,906
Investments in trust funds	1,959,182,245	572,795,753	1,237,340,155	3,769,318,153
Investments at FVTPL	5,572,590	-	-	5,572,590
Investments at FVOCI	2,310,000	1,039,505	19,022,486	22,371,991
Other investments	3,000,000	-	-	3,000,000
Loans and receivables, net	3,195,326	-	-	3,195,326
Other assets	2,529,515	-	-	2,529,515
Total assets	2,004,627,582	573,835,258	1,256,362,641	3,834,825,481
Liabilities				
Pre-need reserves	562,017,318	744,946,555	1,408,634,115	2,715,597,988
Insurance premium reserves	16,279,218	-	-	16,279,218
Due to Parent Bank	338,303	-	-	338,303
Accrued expenses and other liabilities	592,553,302	864,072	16,249,912	609,667,286
Total liabilities	1,171,188,141	745,810,627	1,424,884,027	3,341,882,795

2019	Up to 1 year	Over 1 year up to 3 years	Over 3 years	Total
Assets				
Cash	18,435,750	-	-	18,435,750
Investments in trust funds	1,630,230,228	866,603,077	1,506,956,641	4,003,789,946
Investments at FVTPL	8,006,124	-	-	8,006,124
Investments at FVOCI	3,600,000	1,014,516	20,855,246	25,469,762
Loans and receivables, net	3,299,571	-	-	3,299,571
Other assets	2,740,249	-	-	2,740,249
Total assets	1,666,311,922	867,617,593	1,527,811,887	4,061,741,402
Liabilities				
Pre-need reserves	552,651,584	887,970,509	1,590,080,577	3,030,702,670
Insurance premium reserves	18,826,621	-	-	18,826,621
Due to Parent Bank	20,282,707	-	-	20,282,707
Accrued expenses and other liabilities	417,295,190	1,199,799	12,353,854	430,848,843
Total liabilities	1,009,056,102	889,170,308	1,602,434,431	3,500,660,841

All accounts without fixed term are included under the category "Up to 1 year". These mainly include investments in equity securities, mutual funds and unit investment trust funds.

Pre-need and insurance premium reserves are expected to be settled within their contractual maturity dates. Asset-liability matching is employed to invest in assets to match the maturing liabilities arising from the pre-need contracts issued by the Company to effectively manage liquidity risk.

10 - Share capital; Accumulated other comprehensive (loss) income

Total authorized share capital, which is fully issued and outstanding, consists of 100 million common shares with a par value of P1 per share as at December 31, 2020 and 2019.

The excess of proceeds from the issuance of share capital at par value, which amounted to P775 million, is credited to Share premium.

Details of Accumulated other comprehensive income (loss) at December 31 follow:

	Investments at FVOCI	Remeasurement on retirement benefit obligation (Note 16)	Total
Balances, January 1, 2019	(66,511,502)	(1,540,199)	(68,051,701)
Changes in fair value of investments at FVOCI	240,237,884	-	240,237,884
Fair value gain transferred to profit or loss	(23,559,512)	-	(23,559,512)
Remeasurement gain on retirement benefit obligation	-	(2,719,564)	(2,719,564)
Balance, December 31, 2019	150,166,870	(4,259,763)	145,907,107
Changes in fair value of investments at FVOCI	91,167,478	-	91,167,478
Fair value gain transferred to profit or loss	(14,312,685)	-	(14,312,685)
Remeasurement loss on retirement benefit obligation	-	(2,913,332)	(2,913,332)
Balance, December 31, 2020	227,021,663	(7,173,095)	219,848,568

11 - Total premium collections and information on lapsed plans

In compliance with the provisions of the Pre-Need Uniform Chart of Accounts (PNUCA) issued by the SEC, the information on total premium collections and lapsed plans as at December 31 is shown below:

	2020	2019
Total premium collections	9,930	48,000
Number of lapsed plans reinstated	1	1
Contract price of lapsed plans reinstated	49,650	240,000

12 - Interest income

The account for the years ended December 31 consists of:

	Notes	2020	2019
Government securities	4	937,209	761,237
Bank deposits	2	75,389	55,869
Others		91,173	99,088
		1,103,771	916,194

Other interest income pertains to interest earned on employee loans.

13 - Cost of contracts issued

Cost of contracts issued for the years ended December 31 consists:

	2020	2019
Plan benefits		
Maturity claims	380,782,928	346,138,940
Surrenders	14,542,814	33,496,033
Anticipated endowments	174,298,687	209,605,117
	569,624,429	589,240,090
Decrease in pre-need and insurance premium reserves		
Pre-need		
Pension	(95,136,036)	(163,253,017)
Education	(219,968,645)	(248,795,757)
Insurance premium	(2,547,404)	(3,506,563)
	(317,652,085)	(415,555,337)
Documentary stamp taxes and SEC registration fees	116	-
	251,972,460	173,684,753

The movement in pre-need and insurance premium reserves arises mainly from the release of reserves due to policy maturities.

14 - Other direct costs and expenses

The account consists of insurance expense on policies which amounts to P3.8 million for the year ended December 31, 2020 (2019 - P4.4 million).

15 - Salaries, wages and employee benefits

The account for the years ended December 31 consists of:

	Note	2020	2019
Salaries, wages and employee benefits		7,381,002	9,119,626
Pension expense	16	1,340,574	1,113,403
		8,721,576	10,233,029

16 - Retirement plan

The Company has an unfunded retirement benefit plan in 2020 covering substantially all of its 7 employees (2019 - 9). Under this plan, the normal retirement benefit is equal to the employee's equity in the fund as at retirement, or 175% of the employee's basic monthly salary at date of retirement multiplied by the number of years of service, whichever is higher. The normal retirement date is upon attainment of age 60. The optional retirement benefit is determined on the same basis as normal retirement. Optional retirement date is upon attainment of age 50 and completion of at least 20 years of service. The death benefit is equal to the retirement benefit computed as at the date of death. The disability benefit is equal to the retirement benefit computed as at the date of total and permanent disability; plus a deferred benefit equivalent to the contributions to the fund and their actual earnings from the date of his disability up to his normal retirement date or date of death, whichever comes first.

The retirement benefit obligation recognized as part of accrued expenses and other liabilities in the statement of financial position and its related movement for the years ended December 31 are as follows:

	Note	2020	2019
At January 1		12,273,738	8,513,818
Current service cost		660,609	484,232
Interest cost		679,965	629,171
Benefits due		(277,732)	(73,047)
Remeasurement loss (gain)			
Due to change in financial assumptions		3,129,438	2,374,302
Due to experience adjustments		(216,106)	345,262
At December 31	8	16,249,912	12,273,738

Pension expense recognized in the statement of income for the years ended December 31 consists of:

	Note	2020	2019
Current service cost		660,609	484,232
Interest cost		679,965	629,171
	15	1,340,574	1,113,403

The principal actuarial assumptions used at December 31 are as follows:

	2020	2019
Discount rate	3.56%	5.54%
Salary increase rate	5.00%	5.00%

Discount rate

The discount rate was determined in accordance with the FRSC-approved PIC Q&A 2008-01 (Revised), which mandates that discount rates reflect (a) benefit cash flows and (b) use of zero-coupon rates, even though theoretically derived. The procedure of bootstrapping was applied to the PHP Bloomberg BVAL Reference Rates (BVAL) benchmark reference curve for the government securities market. These derived rates were then used to compute the present value of the expected future benefit cash flows across valuation years. Finally, the single-weighted discount rate was calculated as the uniform discount rate that produced the same present value.

As mentioned above, the present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have term to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Company.

Future salary increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding mortality experience are set based on published statistics and experience in the Philippines.

The average remaining service life of employees under the retirement plan as at December 31, 2020 is 17 years (2019 - 20.5 years).

The projected maturity analysis of retirement benefit payments as at December 31 is as follows:

	2020	2019
Less than a year	139,224	187,536
Between 1 to 5 years	702,813	644,808
Between 5 to 10 years	4,779,038	4,610,341
Between 10 to 15 years	23,595,089	22,970,841
Between 15 to 20 years	4,336,105	4,572,999
Over 20 years	11,755,234	22,120,354

The sensitivity of the defined benefit obligation as at December 31 to changes in the weighted principal assumptions follows:

2020	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by 5.4%	Increase by 5.8%
Salary growth rate	1.00%	Increase by 11.6%	Decrease by 10.3%

2019	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	Decrease by 11.1%	Increase by 12.9%
Salary growth rate	1.0%	Increase by 12.9%	Decrease by 11.3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement asset recognized within the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analyses did not change compared to previous period.

17 - Leases

In 2015, the Company entered into a lease contract with BPI-Philam Life Assurance Corporation (BPLAC) for which the leased premises shall be used as the new principal place of business. The term of the lease is for a period of three years and renewable before the end of the lease term. The contract was renewed on November 1, 2017 for another three years. However, in March 2019, the Company terminated the said lease agreement as it has transferred to the new office space in BPI Buendia Center effective April 1, 2019. The security deposit in the old lease, which amounted to P0.3 million as at December 31, 2018, was refunded upon termination of the lease contract in March 2019. The new lease contract covers a term of five-years beginning April 2019 and provides for a monthly rental payment of P32,000. The rental payment has an annual escalation rate of 5% for the second and third years and 7% for the fourth and fifth years.

From April 1, 2019, the Company recognized a right-of-use asset and a lease liability in relation to such lease agreement under PFRS 16 - Leases, which were previously accounted for as an operating lease under the PAS 17.

Lease term is negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The associated right-of-use asset was adjusted by the amount of any prepaid or accrued lease payments at initial recognition and by the depreciation recognized during the year. Lease liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

Details of right-of-use assets and lease liabilities at December 31 are as follows:

	2020	2019
Right-of-use-asset		
Office space (included under Property and equipment, net)	1,073,227	1,488,780
Lease liability (included under Accrued expenses and other liabilities)		
Current	340,537	605,893
Non-current	864,072	1,279,915
	1,204,609	1,885,808

Movements in the lease liabilities for the years ended is shown below:

	2020	2019
Balance at beginning of the year	1,885,808	1,786,536
Interest accretion on lease liability	47,069	99,272
Principal and interest payments	(657,760)	-
Adjustment on lease modification	(70,508)	-
Balance at end of year	1,204,609	1,885,808

In 2020, there was a modification in the lease agreement for the reduced leased space which also resulted in reduction of lease payments.

The statement of total comprehensive income shows the following amounts relating to leases for the year ended December 31:

	2020	2019
Depreciation expense on right-of-use asset	345,045	297,756
Interest expense on lease liability (included under interest expense)	47,069	99,272
Expense relating to short-term lease (included under Occupancy cost)	32,000	311,220

18 - Income taxes

Provision for income tax pertains to final tax for the year ended December 31, 2020 which amounts to P28.5 million (2019 - P37.3 million).

A reconciliation between the provision for income tax at the statutory income tax rate to the actual provision for income tax for the years ended December 31 are as follows:

	2020	2019
Statutory income tax	(34,224,311)	12,187,672
Current Net operating loss carry-over (NOLCO) with no future tax benefit	80,985,591	58,971,120
Income subject to final tax	(12,492,447)	(27,406,168)
Others, net	(5,772,590)	(6,481,053)
Provision for income tax	28,496,243	37,271,571

Deferred income tax assets are recognized only to the extent that taxable income will be available against which the deferred income tax assets can be used. As at December 31, 2020 and 2019, the Company has not recognized deferred income tax assets in view of its limited capacity to generate sufficient future taxable income.

The details of the Company's unrecognized deferred tax assets as at December 31 follows:

	2020	2019
NOLCO	235,101,963	234,260,410
Retirement benefit obligation	4,874,974	3,682,121
Allowance for impairment	607,289	607,289
Effect of PFRS 16 adoption	39,415	119,108
Provision for bonus	85,194	61,224
Deferred income tax asset not recognized	240,708,835	238,730,152

As at December 31, details of NOLCO are as follows:

Year Incurred	Year of Expiry	2020	2019
2020	2025	269,951,970	-
2019	2022	196,570,401	196,570,401
2018	2021	317,150,838	317,150,838
2017	2020	267,146,794	267,146,794
2016	2019	-	307,156,016
		1,050,820,003	1,088,024,049
Expired NOLCO			
2017		(267,146,794)	-
2016		-	(307,156,016)
		783,673,209	780,868,033
Tax rate		30%	30%
Deferred income tax asset not recognized		235,101,963	234,260,410

On September 30, 2020, the BIR issued Revenue Regulations (RR) No. 25-2020, Rules and Regulations Implementing Section 4 (bbbb) of Bayanihan Act I relative to NOLCO under Section 34 (D)(3) of the National Internal Revenue Code, as amended, allowing qualified businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss. Ordinarily, NOLCO can be carried over as deduction from gross income for the next three (3) consecutive years only. Accordingly, the NOLCO incurred by the Branch in 2020 shall be carried over for the next five years until 2025.

19 - Cash absorbed by operations

Details of cash absorbed by operations for the years ended December 31 are as follows:

	Notes	2020	2019
(Loss) income before income tax		(114,081,038)	40,625,572
Adjustments for:			
Decrease in pre-need and insurance premium reserves	13	(317,652,085)	(415,555,337)
Trust fund income	3	(128,358,939)	(200,457,195)
Retirement benefit expense	16	1,340,574	1,113,403
Depreciation	6	399,436	566,518
Interest income	12	(1,103,771)	(916,194)
Gain on sale of investments	4	(2,207,737)	(857,809)
Fair value loss on investments	4	430,983	26,234
Interest expense	17,20	1,450,403	662,617
Dividend income		(69,327)	(116,399)
Operating losses before changes in operating assets and liabilities		(559,851,501)	(574,908,590)
Changes in operating assets and liabilities			
Decrease (increase) in:			
Investments at FVTPL		2,433,534	42,472,440
Loans and receivables, net		104,245	1,792,308
Other assets		210,735	(22,871)
(Decrease) increase in:			
Accrued expenses and other liabilities		179,476,203	(14,558,422)
Due to Parent Bank		(19,944,404)	4,719,363
Cash absorbed by operations		(397,571,188)	(540,505,772)

20 - Related party transactions

Significant related party transactions are summarized below:

As at and for the year ended December 31, 2020

	Transactions	Outstanding balances	Terms and conditions
Cash in bank (Note 2)			
Parent bank	10,402,156	28,837,906	These are checking accounts bearing average interest rates ranging from 0.25% to 0.35%.
Investment in trust funds (Note 3)			
Parent bank	23,764,437	164,804,768	These are investments in listed common and preferred stocks, and UITFs classified and measured at FVTPL.
Investor of Parent bank	20,823,840	76,390,110	
Other related party	4,718,548	67,356,533	
	49,306,825	308,551,411	
Investments at FVTPL (Note 4)			
Parent bank	1,573,496	1,927,755	These are investments in listed common and preferred stocks, UITFs and mutual funds classified and measured at FVTPL.
Investor of Parent bank	116,600	330,800	
Other related party	(3,632,332)	327,200	
	(1,942,236)	2,585,755	
Due to Parent Bank			
Borrowing	(15,000,000)	-	Refer to discussion made in (a). These relate to payables on the shared service costs. Outstanding balance is unsecured, non-interest bearing and are payable in cash, at gross amounts, on demand but not later than 12 months from reporting date.
Others	(4,944,404)	338,303	
	(19,944,404)	338,303	
Accrued expenses and other liabilities (Note 8)			
Parent bank	155	(12,607)	This pertains to the shared expenses with the Parent Bank. Outstanding balance is unsecured, non-interest bearing and are payable in cash, at gross amounts, on demand but not later than 12 months from reporting date.

As at and for the year ended December 31, 2019

	Transactions	Outstanding balances	Terms and conditions
Cash in bank (Note 2)			
Parent bank	15,867,960	18,435,750	These are checking accounts bearing average interest rates ranging from 0.25% to 0.35%.
Investment in trust funds (Note 3)			
Parent bank	33,511,562	141,040,331	These are investments in listed common and preferred stocks, and UITFs classified and measured at FVTPL.
Investor of Parent bank	(3,687,730)	55,566,270	
Other related party	17,224,083	62,637,985	
	47,047,915	259,244,586	
Investments at FVTPL (Note 4)			
Parent bank	(16,692,334)	354,259	These are investments in listed common and preferred stocks, UITFs and mutual funds classified and measured at FVTPL.
Investor of Parent bank	164,700	214,200	
Other related party	3,827,582	3,959,532	
	(12,700,052)	4,527,991	
Due to Parent Bank			
Borrowing	15,000,000	15,000,000	Refer to discussion made in (a). These relate to payables on the shared service costs. Outstanding balance is unsecured, non-interest bearing and are payable in cash, at gross amounts, on demand but not later than 12 months from reporting date.
Others	5,282,707	5,282,707	
	20,282,707	20,282,707	
Accrued expenses and other liabilities (Note 8)			
Parent bank	(3,622)	(12,762)	This pertains to the shared expenses with the Parent Bank. Outstanding balance is unsecured, non-interest bearing and are payable in cash, at gross amounts, on demand but not later than 12 months from reporting date.

(a) *Borrowing*

The account as at December 31, 2019 represents an unsecured loan facility obtained from the Parent Bank in May 2019 amounting to P15 million to support their working capital requirements. The loan has a maturity period of 90 days from the date of availment and renewable thereafter until the loan amount is fully paid. In May 2019, the loan was rolled over for another period of 360 days. The loan bears an interest of 7.11% per annum. The said loan was settled in 2020.

Further, the Company obtained additional loan availment amounting to P35 million which bear an interest at prevailing market rate. The said loan was also settled in full during the year.

Interest accrued on borrowing as at December 31, 2020 amounts to P1.4 million (2019 - P0.56 million) and is presented under Accrued expenses and other liabilities in the statement of financial position.

There are no significant debt covenants other than the terms of the principal and interest repayment in which the Company has fully complied with as at December 31, 2020 and 2019.

The aggregate amounts included in the determination of income before income tax for the years ended December 31 that resulted from transactions with each class of related parties are as follows:

	2020	2019
Interest income (Note 12)		
Parent bank	75,389	55,869
Dividend income (Note 3)		
Parent	1,071,689	1,121,755
Investor of Parent	437,309	1,660,186
Entity under control of investor of Parent	1,274,058	933,030
	2,783,056	3,714,971
Trust fund management fees (Note 3)		
Entity under common control	6,601,541	7,270,762
Investment management fees		
Entity under common control	50,729	54,986
Shared service cost		
Parent bank	5,386,918	6,972,316
Fellow subsidiaries	-	11,938
Entity under common control	3,957,430	4,737,227
	9,344,348	11,721,481
Salaries, allowances and other short-term benefits		
Key management personnel	4,357,640	4,965,676
Post-employment and other benefits		
Key management personnel	435,764	815,868
Others		
Remuneration of directors	141,000	201,000

(b) *Dividend income*

The Company receives dividend income from investments in preferred shares of Ayala Corporation, a significant investor of BPI; from investments in listed shares of stock of BPI; and from investments in listed shares of stock of companies under common control of Ayala Corporation (Ayala Land, Inc.). Dividend income is recorded under Trust fund income in the statement of income which amounts to P2.8 million for the year ended December 31, 2020 (2019 - P3.7 million). The remaining dividends on company-managed investments are recorded under Dividend income in the statement of income.

(c) Trust fund management fees

This pertains to the amount of investment management fees paid to BPI-AMTC under an Investment Management Agreement for the management of the Trust Funds of the Company subject to the terms and conditions in the said agreement. For the services rendered, the Company pays BPI-AMTC service fees equivalent to a certain percentage of the net asset value of the funds.

(d) Investment management fees

These pertain to payments to BPI-AMTC for the management of the investments of the Company subject to the terms and conditions of an Investment Management Agreement. These fees are calculated based on a fixed rate applied to the fair value of Assets Under Management ("AUM").

(e) Shared service cost

Shared service cost pertains to the internal audit, human resources and call center services provided by the Parent Bank and outsourcing services relating to information systems and mailing provided by fellow subsidiaries and entity under common control. The costs are determined based on the amounts agreed by the parties. The Company also makes payments of the planholders insurance expense to BPI-Philam.

The above agreements remain in force, unless terminated by the parties. No provisions were recognized against receivables from related parties.

21 - Contingent liability

As at December 2020 and 2019, the Company has a pending lawsuit. In the opinion of management, after reviewing all legal actions and proceedings with legal counsels, the aggregate liability, if any, arising therefrom will not have a material effect on the Company's financial statements.

The Company has no contingent liability as at December 31, 2020 and 2019.

22 - Subsequent events

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

On March 26, 2021, Republic Act (RA) No.11534, otherwise known as CREATE, was signed into law. Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) rates as follows:

- Reduction of corporate income tax (CIT) rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5,000,000 and with total assets not exceeding P100 Million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and,
- Minimum Corporate Income Tax (MCIT) rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

Under CREATE, corporate taxpayers shall prepare their annual income tax return for the calendar year 2020 (CY2020) using the pro-rated CIT rate for CY2020 reckoned from July 1, 2020 (retrospective effect).

For financial reporting purposes, the enactment of CREATE after the reporting date is deemed a non-adjusting subsequent event. The new CIT rates do not have significant impact to the Company's financial statements as its provision for income tax pertains to final tax and the Company has not recognized deferred income tax assets in view of its limited capacity to generate sufficient future taxable income.

23- Financial risk and capital management

The Company's activities expose it to a variety of risks. The overall objective of risk management is to minimize the potential adverse effects of these risks on the financial condition and results of operations of the Company.

23.1 Pre-need plan

Features of a pre-need plan

A pre-need contract promises the payment of a benefit upon reaching a specified maturity date. Ownership of the plan may also be transferred to another party upon payment of a consideration. A pre-need plan is classified as a security. Pre-need companies are regulated by the Insurance Commission (IC) (Note 25).

Pre-need plans can either be fixed-value plans or actual cost plans. Fixed-value or fixed-benefit plans are plans in which the amount of the benefit is fixed at the time the plan is purchased. Actual cost or traditional plans are plans in which the amount of the benefit is the actual cost of such benefit or service at the time of payment of the benefit. The Company only sells fixed-value plans which contain a fixed schedule of benefits. The Company sells education and pension plans and is exposed only to fixed benefits due to policyholders under the policy contract. Investments risks relative to fund investments are borne and managed by the Company.

In compliance with the rules and regulations originally set forth by the SEC and adopted by the IC, the Company has set up separate trust funds for pension and education plans. BPI-AMTC acts as the trustee for these funds and manages the contributions to the funds, ensures that the monies are properly invested in order to get the appropriate yield, and disburses benefits as they become due and payable.

The Company's pre-need plans also provide insurance benefits which will pay for the unpaid plan installments to the Company upon the death or total and permanent disability of the planholder. To provide this benefit, the Company purchases yearly term insurance from BPLAC, an associate of BPI. This will make the plan paid up upon the death of the planholder. The plan also provides for the payment of a fixed sum upon the occurrence of certain contingencies as follows:

- (i) For peso-denominated regular pension plans issued prior to August 1, 2005 and education plans, an amount equal to the plan price will be paid to the beneficiaries of the planholder upon the death of the planholder;
- (ii) For peso-denominated regular pension plans issued on or after August 1, 2005, an amount equal to the maturity benefit shall be paid to the beneficiaries of the planholder upon the death of the planholder; and
- (iii) For education plans issued on or after August 1, 2005, an amount in accordance with the prescribed schedule of benefits shall be paid to the planholder upon the accidental death or dismemberment of the nominee.

Nature and management of the risks

The Company is not exposed to risk of the premiums not being uncollected in the event of death or disability of the policyholder since the premiums under the plan are covered by a Group Term Life Insurance policy with BPLAC. The risks under a pre-need contract are included in the financial risk factors set out below Note 22.2.

Concentration of risks

The table below presents the concentration of risk by product line at December 31, 2020 and 2019. Exposure is measured in terms of the maturity value of the plans that are in force, paid-up, and lapsed but still within the reinstatable period. Exposures are also shown in terms of prospective benefits without discounting.

Product	2020		2019	
	Exposure ('000)	Concentration (%)	Exposure ('000)	Concentration (%)
Pension	2,756,945	82.79%	3,074,953	78.53%
Education	573,065	17.21%	840,484	21.47%
Total	3,330,010	100.00%	3,915,437	100.00%

The above exposures are the actual liability of the Company to its plan holders in the future at undiscounted amounts. These exposures are managed by the Company by matching these amounts with investments.

23.2 Financial risk factors

The Company is exposed to financial risks through its financial assets and financial liabilities. The key financial risk is that its financial assets will not be sufficient to meet the obligations in its pre-need contracts. Components of this financial risk include market risk, credit risk and liquidity risk. Market risk includes foreign exchange risk, interest rate risk and other price risk.

23.2.1 Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The pre-need business of the Company includes a pension plan which is denominated in US dollars. Currency exposure arising from this pre-need plan is matched by the investments in trust fund denominated in US dollars, composed mainly of government securities classified as investments at FVOCI (Note 3).

At December 31, 2019, if the currency had weakened/strengthened by 4% against the US dollar, as projected by the Company's investment manager based on historical experience, with all other variables held constant, total comprehensive income for the year and equity would have been P180 thousand higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar denominated investments in the Trust Funds.

At December 31, 2020, the Company is not exposed to any foreign exchange risk as the Company no longer has trust funds and bank accounts denominated in US dollar (Note 2 and 3).

23.2.2 Interest rate risk

There are two types of interest rate risk: (i) fair value interest risk and (ii) cash flow interest risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Interest rate risk is managed by targeting a desired return, which is reviewed periodically, based on the Company's long-term view on interest rates. Strict investment guidelines, as approved by the Investment Committee and IC, are in place and reviewed regularly to provide the general direction for the investment funds and to monitor the risk undertaken.

The Company and Trust Fund's interest rate risk arises from investments in government and corporate bonds. However, the exposure is only on fair value interest rate risk because of debt securities in the statement of financial position and in the Trust Funds classified as investments at FVOCI are subject to fixed interest rates (Notes 3 and 4). Based on the sensitivity analysis performed by the Company, after taking into consideration the reasonable possible shift in interest rates of the debt securities, a shift of 100 basis points (2019 - 100 basis points) would result to an increase/decrease of P22.7 million (2019 - P30.0 million) in fair value reserves (shown as part of other comprehensive income) as a result of gains/losses on debt securities classified as investment at FVOCI for the years ended December 31, 2020 and 2019. The reasonable possible shift in interest rates are based on the Company's year-on-year monitoring of interest rate movements.

23.2.3 Price risk

The Company is exposed to price risk since it sells long-term contracts with fixed and guaranteed terms. The pre-need contract price is determined using assumptions on the investment yield and persistency and policy expenses. When actual experience deviates from pricing assumption, the viability of the plan may be affected.

The Company manages this risk by closely monitoring actual experience vis-à-vis pricing assumption by way of financial statements and investment reports prepared by the trustees and regular studies performed by the Actuarial Department of the Company in the areas of persistency and expense. Should it be warranted, the pre-need plans may be repriced based on updated assumptions. The assumptions used in establishing the liability for benefits reflected in the books of the Company are based on the Amended Pre-need Rule, which sets forth the standards for valuation of pre-need reserves of the plans.

The Company and Trust Fund are also exposed to equity securities price risk because of investments held and classified as investments at FVTPL in the statement of financial position (Notes 3 and 4).

On the assumption that the Philippine Stock Exchange Index (PSEi) had increased/decreased by 10% as at December 31, 2020 (2019 - 3%), Fair value reserves (shown as part of the profit or loss) is expected to increase/decrease by P86.9 million (2019 - P26.2 million) as a result of unrealized gains/losses on equity securities classified as investments at FVTPL.

On the assumption that the net asset value per share of existing investments in mutual funds had increased/decreased by 3.7% in 2020 (4.0% - 2019), Fair value reserves (shown as part of the profit or loss) is expected to increase/decrease by P60 thousand (2019 - P151 thousand) as a result of unrealized gains/losses on these investments classified as investments at FVTPL.

On the assumption that the net asset value per share of existing investments in unit investment trust funds had increased/decreased by 1.4% (2019 - 3.0%), Fair value reserves (shown as part of the profit or loss) is expected to increase/decrease by P1.7 million (2019 - P3.0 million) as a result of unrealized gains/losses on these investments classified as investments at FVTPL.

The reasonable possible shift in prices disclosed above are based on the Company's monitoring of such prices (PSEi, NAVPU) year-on-year.

The above are consistent with the assumption that all the variables are held constant and all the Company's equity instruments moved according to the historical correlation with the index.

23.2.4 Credit risk

Credit risk represents the loss that would be recognized if counterparties to investment and other receivable transactions are unable or unwilling to fulfill their payment obligations.

Credit risk management

One of the Company's primary investment objectives is to seek the preservation of its portfolio by mitigating the credit risk which is the risk of loss due to failure of the issuer to make good on its obligation when the investment becomes due. This is mitigated by investing in government securities and diversifying its investment portfolio so that the failure of any one issuer would not materially affect the cash flow of the Company. Within the guidelines provided by the IC, the Company's Investment Committee ensures that the Company invests in allowable categories of investment instruments and follows the limitation as to the percentage of the portfolio which can be invested in certain category. Presently, the Company and the Trust Funds are investing primarily in government securities.

The credit risk arising from operations is closely monitored by the Finance Department on a regular basis.

In measuring credit risk of loans and receivables to customers and other debtors at a counterparty level, the Company reflects three components as follows:

- (i) the probability of default by the customers or counterparty on its contractual obligations;
- (ii) current exposures to the customers or counterparty and its likely future development; and
- (iii) the likely recovery ratio on the defaulted obligations.

For term loans, external rating such those provided by Philippine Rating Services Corporation ("Philratings") or its equivalent is used by the Credit Policy Group for managing the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

Receivables also consist mainly of agent accounts (sales counselors), loans to employees and other receivables. The Company regularly evaluates its credit risk through its aging reports and adherence to its escalation policy to ensure that all outstanding receivables are properly elevated to the concerned Company authority for collection and disposition. Receivables aged over six months from the date of recognition are considered past due and are subjected for provision assessment.

Risk limit and control mitigation policies

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Maximum exposure to credit risk

Credit risk exposures relating to financial assets at December 31 are as follows:

	2020	2019
Cash	28,837,906	18,435,750
Investments in trust fund		
Cash	29,516	10,922
Investments at FVOCI	2,687,126,460	3,012,149,266
Accrued interest income	40,666,077	46,808,583
Other receivables	42,386,520	7,430,468
Investments at FVOCI	22,371,991	21,896,762
Loans and receivables		
Loans and advances to employees	937,702	1,152,607
Accrued interest income	235,457	287,456
Others	2,879	9,130
	2,822,594,508	3,108,180,944

Cash

The Company manages credit risk on its cash by depositing largely in universal banks. All of the Company's depository banks are of good credit standing and have no history of default. Accordingly, management has assessed that credit risk is minimal.

Investments at FVOCI

The Company manages credit risk by investing primarily on Philippine government-guaranteed bonds which are considered risk-free. Other investments subject to credit risk pertain to bond issuances of reputable corporations which have no history of defaults.

Management has assessed that the securities are of low credit risk and that the 12-month ECL is deemed not material for financial reporting purposes as at December 31, 2020 and 2019.

Loans and receivables

The Company applies the PFRS 9 simplified approach in assessing ECL, which uses a lifetime ECL for receivables. To measure the ECL, receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on payment profiles, and the corresponding historical credit loss experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information or macroeconomic factors affecting the ability of the counterparties to settle the receivables. The Company has identified gross domestic product and inflation rate to be the most relevant factors and accordingly adjust the historical loss rates based on the expected changes on these factors.

The payment profile of the Company's loans and receivables at December 31 is summarized below:

2020	Gross carrying amount	Current	More than 30 days	More than 120 days
Investments in trust fund				
Accrued interest income	40,666,077	40,666,077	-	-
Other receivables	42,386,520	42,386,520	-	-
Loans and receivables				
Loans and advances to employees	937,702	937,702	-	-
Receivable from sales counselors	2,024,295	-	-	2,024,295
Accrued interest income	235,457	235,457	-	-
Others	2,879	2,879	-	-
Gross amounts	86,252,930	84,228,635	-	2,024,295
Allowance for impairment	-	-	-	(2,024,295)
	86,252,930	84,228,635	-	-
2019	Gross carrying amount	Current	More than 30 days	More than 120 days
Investments in trust fund				
Accrued interest income	46,808,583	46,808,583	-	-
Other receivables	7,430,466	7,430,466	-	-
Loans and receivables				
Loans and advances to employees	1,152,607	1,152,607	-	-
Receivable from sales counselors	2,024,295	-	-	2,024,295
Accrued interest income	287,456	287,456	-	-
Others	9,130	9,130	-	-
Gross amounts	57,712,537	55,688,242	-	2,024,295
Allowance for impairment	-	-	-	(2,024,295)
	57,712,537	55,688,242	-	-

Based on management's experience, loans and receivables are fully collectible, except for credit impaired receivables that are fully provided with allowance. Credit impaired receivables are those receivables aged more than one year which we are assessed to be non-performing. Management has determined that the level of allowance required as at December 31, 2020 and 2019 is adequate to comply with the ECL assessment made on loans and receivables.

There was no collateral held on the term loans and receivables. These loans and receivables were not re-negotiated and are fully recoverable. Impaired receivables are fully provided with allowance (Note 5).

Concentrations of risks of financial assets with credit exposure

The Company's main exposure at their carrying amounts, as categorized by industry sectors as at December 31 follows:

2020	Financial institutions	Philippine government	Real estate	Others	Allowance for impairment	Carrying amount
Cash	28,837,906	-	-	-	-	28,837,906
Investments in trust fund						
Cash	29,516	-	-	-	-	29,516
Investments at FVOCI	228,350,000	2,250,021,976	68,784,184	139,984,822	(14,522)	2,687,126,460
Accrued interest income	5,074	38,742,453	355,069	1,563,482	-	40,666,078
Other receivables	-	-	-	42,386,520	-	42,386,520
Investments at FVOCI	-	22,371,991	-	-	-	22,371,991
Loans and receivables						
Loans and advances to employees	-	-	-	937,702	-	937,702
Receivable from sales counselors	-	-	-	2,024,295	(2,024,295)	-
Accrued interest income	-	-	-	235,457	-	235,457
Others	-	-	-	2,879	-	2,879
	257,222,496	2,311,136,420	69,139,253	187,135,157	(2,038,817)	2,822,594,509

2019	Financial institutions	Philippine government	Real estate	Others	Allowance for impairment	Carrying amount
Cash	18,435,750	-	-	-	-	18,435,750
Investments in trust fund						
Cash	10,922	-	-	-	-	10,922
Investments at FVOCI	31,871,343	2,649,457,661	107,077,070	223,743,192	-	3,012,149,266
Accrued interest income	115,989	44,079,843	588,409	2,024,342	-	46,808,583
Other receivables	-	-	-	7,430,466	-	7,430,466
Investments at FVOCI	-	21,896,762	-	-	-	21,896,762
Loans and receivables						
Loans and advances to employees	-	-	-	1,152,607	-	1,152,607
Receivable from sales counselors	-	-	-	2,024,295	(2,024,295)	-
Accrued interest income	-	-	-	287,456	-	287,456
Others	-	-	-	9,130	-	9,130
	50,434,004	2,715,434,266	107,665,479	236,671,488	(2,024,295)	3,108,180,942

"Others" industry sector includes telecommunications, energy development, food and beverage companies and other various industry sectors for investments.

23.2.5 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations when due. Through the Company's trustee banks, the Company is able to manage its Trust Funds' liquidity by close monitoring of the Trust Funds' cash flows and ensuring that the operation maintains optimum levels of liquidity which is at all times sufficient to meet contractual obligations as and when they fall due.

It is also the Company's policy to maintain adequate liquidity to meet its cash flow requirements. Accordingly, each portfolio is structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities is consistent with the cash requirements in order to avoid the forced sale of securities prior to maturity.

Pre-need reserves at December 31, 2020 amounting to P2.7 billion (2019 - P3.0 billion) are fully matched by the balance of the trust funds (Note 3). As at December 31, 2020, the balance of investment in trust funds in excess of the pre-need reserves set-up amounts to P1,053.7 million (2019 - P973.1 million).

The maturities of financial liabilities as at December 31 are detailed below.

2020	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
Financial liabilities				
Investments in trust fund				
Accrued trust fees payable	1,605,959	-	-	1,605,959
Pre-need reserves	562,017,318	744,946,555	1,408,634,115	2,715,597,988
Insurance premium reserves	16,279,218	-	-	16,279,218
Due to Parent bank	338,303	-	-	338,303
Accrued expenses and other liabilities (excluding taxes and retirement benefit obligation)				
	593,285,744	-	-	593,285,744
	1,173,526,542	744,946,555	1,408,634,115	3,327,107,212
2019	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
Financial liabilities				
Investments in trust fund				
Accrued trust fees payable	25,783,739	-	-	25,783,739
Pre-need reserves	552,651,584	887,970,510	1,590,080,576	3,030,702,670
Insurance Premium Reserves	18,826,621	-	-	18,826,621
Due to parent bank	20,282,707	-	-	20,282,707
Accrued expenses and other liabilities (excluding taxes and retirement benefit obligation)				
	418,363,261	-	-	418,363,261
	1,035,907,912	887,970,510	1,590,080,576	3,513,958,998

23.2.6 Fair value hierarchy

PFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of traded loans and issued structured debt. The primary source of input parameters is Bloomberg.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The following table presents the Company's assets that are measured at fair value at December 31.

	2020		2019	
	Level 1	Level 2	Level 1	Level 2
Investment in trust funds				
Equity securities	883,257,529	-	862,526,188	-
Unit investment in trust fund	117,458,010	-	100,648,258	-
Government securities	2,250,007,455	-	2,649,457,661	-
Other debt instruments	208,769,005	-	362,261,200	-
Deposit instruments	228,350,000	-	430,405	-
Investments at FVTPL				
Company-managed				
Equity securities	423,120	-	500,269	-
Mutual fund	993,168	-	1,968,003	-
Insurance premium fund				
Equity securities	3,549,149	-	3,909,862	-
Mutual fund	607,153	-	1,627,990	-
Unit investment in trust fund	-	-	-	-
Investments at FVOCI				
Company-managed				
Government securities	5,535,757	-	5,378,454	-
Deposits	1,260,000	-	-	-
Club share	-	-	-	3,600,000
Insurance premium fund				
Government securities	14,526,234	-	16,518,308	-
Deposits	1,050,000	-	-	-
Other investment				
Club share	-	3,000,000	-	-
	3,715,786,580	3,000,000	4,005,226,598	3,600,000

For club share, the Company derives the fair value from a third-party pricing provider and will only make use of an internal pricing model if the third-party prices are not available. The use of an internal pricing model requires review and approval by the local management. The unobservable inputs in determining the fair value of club shares include the counterparty's credit spread and the price volatilities as the market may be inactive. A change in the unobservable inputs may result in a higher (lower) fair value measurement. However, any change is not considered to materially affect the financial statements as at December 31, 2020 and 2019.

The Company has no financial instruments that fall under Level 3 category as at December 31, 2020 and 2019.

There were no transfers between levels at December 31, 2020 and 2019.

23.3 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide dividend payments to its shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Company calculates its capital as equity, as shown in the statements of financial position.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

In accordance with the Pre-Need Code, the Company maintains a minimum paid-up capital of P75 million.

24 - Critical accounting estimates, assumptions and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments 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. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

24.1 Critical accounting estimates and assumptions

Pre-need reserves

The Company determines its pre-need reserves in accordance with the requirements of the Amended Pre-need Rule. Statutory valuation requires the use of a prospective method and assumptions based on Company experience.

- (i) Investment yield - The interest rate used is 4.5% (2019 - 6.0%) for peso education plans. For peso pension plans, the interest rate used is 5% (2019 - 6%) for plans issued before May 15, 2007 and 5.0% for plans (MyMoneyBuilder Series 2) issued on or after such date.

The Company's actual experience for 2020 (net of withholding tax) is 3.95% (2019 - 7.34%) for Education Trust Fund and 6.06% (2019 - 12.12%) for peso-denominated Pension Trust Fund. Realized investment income in 2020 amounts to P29.8 million (2019 - P59.5million) for the Education Trust Fund and P97.8 million (2019 - P140.8 million) for the Pension Trust Fund. In addition, there were unrealized gains/loss due to increase/decrease in market value of equity investments at P6.1 million gain (2019 - P26.5 million for the Education Trust Fund and P72.6 million gain (2019 - P188 million) for the Pension Trust Fund. Moreover, the average yield to maturity of the fixed-income investments, which comprise 75.2% (2019 - 75.2%) of the total portfolio, is 5.0% (2019 - 5.0%) for Education Trust Fund and 5.6% (2019 - 5.6%) for Pension Trust Fund as at December 31, 2020.

For dollar pension plans, all plans have matured in December 2019 and were fully settled in August 2019. On August 7, 2020, the Insurance Commission approved the request of the Company to terminate its trust agreement for its dollar pension fund. The Dollar Trust Fund gained 9.44% (2019 - 9.44% loss). The investment income consisted of realized income of US \$1,704 (2019 - US \$2,782) and unrealized loss of US \$11,499 (2019 - US \$3,889 gain).

Assuming that a 5.5% annual investment yield will be used as projected by the Trustee Bank to value education and peso pension plans, the additional pre-need and other reserves will be P53.41 million as of December 31, 2020 (2019 - P57.7 million).

- (ii) Mortality - There is no mortality decrement assumed in the valuation. In lieu of this, an insurance premium reserve is set up as a separate liability account against which future insurance premiums will be charged. The assumptions used for computing the insurance premium reserves and based on the corresponding surrender rates of the plan and an interest rate of the lower between 6.0% note or the SEC approved hurdle rate per product model.
- (iii) Withdrawal Rates - For Education and Regular pension plans, withdrawal rates assumed during the premium paying period are based on the latest persistency study and are set equal to zero after the premium paying period. For Active pension plans, withdrawal rates are assumed to be zero for all durations.
- (iv) Surrender Rates - Based on the latest persistency study, the trend of surrender rate experience for policies on the first to tenth year in 2020 and 2019 is at an average of 0.7% for Education plans and at an average of 1.1% for Regular pension plans.
- (v) Reinstatement Rates - Based on actual experience as at 2007, average monthly reinstatement rate is 3.8% for Education plans and 2.3% for Regular pension plans.
- (vi) Expense - There is no expense assumption in the statutory valuation.

Investment yields are the more significant assumptions and estimates relative to the Company's pre-need reserves.

The assumptions are reviewed and adjusted annually to reflect current and projected experience.

Determination of incremental borrowing rate

The lease payments are discounted using the Company's incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received; or
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held which do not have recent third-party financing, and
- makes adjustments specific to the lease, (e.g. term, currency and security).

The Company's incremental borrowing rate applied to the lease liabilities was 3.07% in 2020 (2019 - 6.67%). The rate was determined in reference to the prevailing bank market rates applicable to the leased properties with similar terms and conditions. The Company has assessed that it is impracticable to present a sensitivities arising from the impact of upward/downward changes in the discount rates used in the determination of lease liabilities without undue efforts. As such, the sensitivity analysis was no longer presented.

Measurement of ECL allowance on investments at FVOCI and loans and receivables

The Company measures its investments at FVOCI and loans and receivables based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting inputs to the impairment calculation based on the Company's past experience, existing market conditions as well as forward-looking estimates at the end of the reporting period.

Details about the credit quality of investments at FVOCI and loans and receivables are disclosed in Note 23.2.4.

24.2 Critical judgments

Classification of investments (Notes 3 and 4)

The Company classifies financial assets at initial recognition, whether it must be subsequently measured at FVOCI, at amortized cost or at FVTPL. The Company determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Company determines whether the contractual cash flows associated with the financial assets are solely payments of principal and interest (the "SPPI"). If instrument fail the SPPI test, it will be measured at FVTPL.

Realization of deferred income tax assets (Note 18)

Management reviews at each reporting date the carrying amounts of deferred income tax assets. The carrying amount of deferred income tax assets is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the related tax assets can be utilized.

At December 31, 2020, the Company has unrecognized deferred income tax assets of P240.7 million (2019 - P238.7 million), which was not recognized in view of the Company's limited capacity to generate sufficient future taxable income.

25 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

25.1 Basis of preparation

The financial statements of Company have been prepared in accordance with accounting principles generally accepted in the Philippines for pre-need companies as set forth in the Pre-need Rule 31, As Amended: *Accounting Standards for Pre-Need Plans and Pre-Need Uniform Chart of Accounts (PNUCA)*, applicable Insurance Commission (IC) Circular Letters, and Philippine Financial Reporting Standards (PFRS), except for the accounting treatment on revenues and financial liabilities under PFRS 9 and PFRS 4, respectively. The term PFRS in general includes all applicable PFRS, PAS and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments at FVOCI, FVTPL and plan assets.

The preparation of financial statements in conformity with the framework discussed above requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 24.

On December 3, 2009, Republic Act No. 9829, an act establishing the Pre-Need Code of the Philippines (Pre-Need Code), was made effective. Under the Pre-Need Code, the primary and exclusive supervision and regulation of all pre-need companies was given to the IC.

Changes in accounting policy and disclosures

(a) New amendments to existing standards the revised Conceptual Framework adopted by the Company

The Company has applied the following amendments to existing standards and the revised Conceptual Framework effective January 1, 2020:

- Amendments to IAS 1, '*Presentation of Financial Statements*', and IAS 8, '*Accounting Policies, Changes in Accounting Estimates and Errors*'

The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and; the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The adoption of the above amendments did not have a material impact on the Company's financial statements as its materiality assessment is already made in the context of the financial statements as a whole.

- *Amendment to PFRS 16, "Leases"*

The amendment provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

The adoption of the above amendment did not have a material impact on the Company's financial statements as it was not provided with any rent concessions during the year ended December 31, 2020.

- *Adoption of the Revised Conceptual Framework for Financial Reporting*

The revised Framework includes the following changes:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes are made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards need to apply the revised Framework from January 1, 2020.

The adoption of the above revised framework did not have a material impact on the Company's financial statements as the accounting policies of the Company are still the same and appropriate under the revised framework.

- (b) *New amendments to existing standard not yet adopted by the Company*

The following amendments to existing standards are not mandatory for the December 31, 2020 reporting period and have not been early adopted by the Company:

- Amendments to PAS 1, *'Presentation of Financial Statements'*

The amendments to PAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

- PAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'*

The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- Annual Improvements to PFRS Standards 2018-2020

The following improvements were finalized in May 2020:

- i. PFRS 9, *'Financial Instruments'*, clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- ii. PFRS 16, *'Leases'*, amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The adoption of the above amendments is not expected to have a material impact on the financial statements of the Company.

25.2 Financial assets

25.2.1 Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at FVTPL;
- those to be measured subsequently at FVOCI; and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investment in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of the initial recognition to account for the equity investment at FVOCI.

The Company reclassifies its financial assets when and only when its business model for managing those assets changes.

25.2.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

25.2.3 Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

Amortized Cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is computed using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in statement of income and presented in other income. Impairment losses, if any, are presented as separate line item in the statement of income.

The Company's financial assets at amortized cost at December 31, 2020 and 2019 include cash (Note 2) and loans and receivables (Note 5).

Cash pertain to deposits held at call with banks. Cash in banks earn interest at the respective bank deposit rates. These are carried in the statement of financial position at face or nominal amount, which approximates its amortized cost using the effective interest rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

FVOCI

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses and foreign exchange gains and losses which are recognized in statement of income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other income. Interest income from these financial assets is computed using the effective interest rate method. Foreign exchange gains and losses and impairment expenses are presented as separate line item in the statement of income, if any.

The Company's assets measured at FVOCI at December 31, 2020 and 2019 consist of government securities, deposit instruments and other debt instruments.

FVTPL

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in the statement of income in the period in which it arises.

The Company's assets measured at FVTPL at December 31, 2020 and 2019 consist of unit investment trust funds and mutual funds.

Equity instruments

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company's listed equity instruments are measured at FVTPL at December 31, 2020 and 2019 while the Company's club shares are measured at FVOCI as at December 31, 2020 and 2019.

25.2.4 Impairment and write-off

The Company assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at FVOCI and amortized cost. The Company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Credit impaired financial assets

Financial assets are assessed for credit impairment at each balance sheet date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the debtor is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganization, as well as measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the debtor or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at reporting date, it is no longer considered to be credit-impaired. The asset will transfer back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, and when there is sufficient evidence to support full collection of principal and interest due. Prior to the transfer to Stage 1, the asset should have exhibited both the quantitative and qualitative indicators of probable collection.

When a financial asset has been identified as credit-impaired, ECL is measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate.

When a financial asset is credit impaired, interest ceases to be recognized on the regular accrual basis, which accrues income based on gross carrying amount of the asset. Rather, interest income is calculated by applying the original effective interest rate to the amortized cost of the asset, which is the gross carrying amount less related allowance for impairment. Following impairment, interest income is recognized on the unwinding of the discount from the initial recognition of impairment.

Impairment of other financial assets

The Company applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for other financial assets.

To measure the ECL, other financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of receivables and the corresponding historical credit losses experienced by the Company. The forward-looking information on macroeconomic factors are considered insignificant in calculating impairment of other financial assets.

Write-off

Financial assets are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company and a failure to make contractual payments for a period of greater than 120 days past due.

25.3 Financial liabilities

The Company classifies its financial liabilities at amortized cost and liabilities at FVTPL.

25.3.1 Classification

The Company classifies its financial liabilities at amortized cost and liabilities at FVTPL. As at December 31, 2020 and 2019, the Company has no financial liabilities measured at FVTPL.

Financial liabilities measured at amortized cost include due to Parent Bank (Note 20) and accrued expenses and other liabilities (excluding retirement benefit obligation, tax-related payables and social security contributions) (Note 8).

25.3.2 Initial recognition and subsequent measurement

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. These are recognized initially at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest rate method.

25.3.3 Derecognition

Financial liabilities are derecognized when extinguished, i.e., when the obligation is discharged or is 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 profit or loss.

25.4 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

The Company uses valuation techniques for non-financial assets that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

25.5 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

25.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation on furniture and equipment is calculated using the straight-line method to allocate the cost or residual value over the estimated useful life of 3 - 5 years. Leasehold improvements are depreciated over the shorter of the lease term (ranges from 5 to 10 years) and the useful life of the related improvement (ranges from 5 to 10 years). Major renovations are depreciated over the remaining useful life of the related asset. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each reporting date. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss, if any, is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from derecognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

25.7 Pre-need reserves

Pre-need reserves which represent the accrued net liabilities of the Company to its planholders are actuarially computed based on standards and guidelines originally set forth by the SEC and subsequently revised by the IC. The increase or decrease in the account is charged or credited to costs of contracts issued in the statement of income.

25.8 Insurance premium reserves

Insurance premium reserves, which represent the amount that must be set aside by the Company to pay for premiums for insurance coverage of fully paid planholders, are actuarially computed based on standards and guidelines originally set forth by the SEC and adopted by the IC (Note 23). The increase or decrease in the account is charged or credited to costs of contracts issued in the statement of income.

25.9 Accrued expenses and other liabilities

Accrued expenses and other payables are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Accrued expenses and other liabilities are derecognized when extinguished.

25.10 Income taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent that that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. The Company reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

25.11 Employee benefits

Retirement benefits

The Company has an unfunded defined benefit plan covering all officers and employees. A defined benefit plan is a pension 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.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognized immediately in profit or loss.

Profit-sharing and bonus plans

The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

25.12 Equity

Share capital represents common shares.

Share premium include any premium on consideration received in excess of par value on the issuance of share capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds, net of tax.

Deficit include current and prior years' result of operations, net of any dividends declared and effect of changes in accounting policy as may be required by the relevant standard's transitional provisions, as applicable.

25.13 Foreign currency transactions and translation

Functional and presentation currency

Items in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Changes in the fair value of monetary securities denominated in foreign currency classified as investment at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security, and other charges in the carrying amount of the security. Translation differences are recognized in profit or loss, and other charges in carrying amount are recognized in equity.

25.14 Premium income

Premium income from sale of pre-need plans is recognized as earned when collected.

25.15 Trust fund income

Trust Fund income which represents net income of the Company's Trust Fund is recognized in the statement of income when earned. This income is automatically restricted to payments enumerated in Note 3 of the financial statements.

25.16 Dividend income

Dividend income is recognized when the right to receive payment is established.

25.17 Policy income

Policy income, which includes loading and handling fees, surcharges on lapsed plans, income on cancelled plans, reinstatement and amendment fees, and other miscellaneous policy fees, are recognized when earned.

25.18 Interest income

Interest income is recognized in the statement of income for all interest-bearing financial instruments using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset.

When calculating the effective interest rate, the Company and the Trust Funds estimate cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

25.19 Other income

Other income is recognized when earned.

25.20 Costs and expenses

Cost of contracts issued, other direct costs and expenses, and general and administrative expenses are recognized when incurred.

25.21 Leases

The Company recognizes lease as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the lease commencement date plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is subsequently amortized on a straight-line basis over the lease term. The estimated useful life of the right-of-use asset is determined on the same basis as those of the property and equipment. In addition, the right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the fair value change on the lease liability and decreased by lease payment made.

Payments associated with short-term leases are recognized on a straight-line basis as an expense in the statement of income.

25.22 Related party transactions and relationships

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

25.23 Provisions and contingencies

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events or when it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the financial statements but they are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements unless realization of income is virtually certain. It is disclosed in the notes to financial statements when an inflow of economic benefits is probable.

25.24 Subsequent events

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

26 - Supplementary information required by the Bureau of Internal Revenue (BIR)

The following information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

Supplementary information required by Revenue Regulations (RR) No. 15-2010

The information required by RR 15-2010 is presented below:

I. Output value-added tax (VAT)

Output VAT declared for the year ended December 31, 2020 and the revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT		
Policy income	17,604	1,886
Others	91,974	9,854
	109,578	11,740

Premiums and policy income above are based on actual collections and contributions, while revenues in the statement of income are based on the policies described in Note 25.14 to Note 25.19.

Output VAT on sale of equipment and others presented under Others above were assumed by the respective counterparty.

The Company utilized its available input VAT against its output VAT payable.

II. Input VAT

Movements in input VAT for the year ended December 31, 2020 follow:

	Amount
Beginning balance (net of output tax)	2,264,910
Add: Current year's domestic purchases/payments for:	
Services lodged under other accounts	64,938
Claims for tax credit/refund and other adjustments	(11,631)
	2,318,217

Input VAT is netted against output VAT payable. Unutilized portion of input VAT is presented as part of the other assets in the statement of financial position.

III. Documentary stamp tax

The Company paid documentary stamp tax amounting to P198,142 for the year ended December 31, 2020. Documentary stamp tax is presented as taxes and licenses under general and administrative expenses in the statement of income.

IV. All other local and national taxes

All other local and national taxes paid for the year ended December 31, 2020 consist of:

	Amount
Pre-need license	50,500
Mayor's permit	11,836
Community tax	519
Others	2,700
	<u>65,555</u>

The above local and national taxes are presented as taxes and licenses under general and administrative expenses in the statement of income.

V. Withholding taxes

Withholding taxes paid and accrued for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Expanded withholding tax	1,174,437	136,090	1,310,527
Withholding tax on compensation	939,832	116,864	1,056,696
Fringe benefit tax	59,512	11,588	71,100
	<u>2,173,781</u>	<u>264,542</u>	<u>2,438,323</u>

Withholding taxes accrued is presented as a part of accrued expenses and other liabilities in the statement of financial position.

VI. Tax assessments

Taxable years 2019, 2018 and 2017 are open tax years. The Company has not received any preliminary or final assessment notice on those open tax years.

VII. Tax cases

The Company has no outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR as at and for the year December 31, 2020.