INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Caritas Financial Plans, Inc.
3rd Floor, Katipunan Building
95 E. Rodriguez Sr. Blvd.
Quezon City

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Caritas Financial Plans, Inc. (the Company), a wholly owned subsidiary of Caritas Health Shield, Inc., which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with financial reporting standards in the Philippines for pre-need companies as described in Note 2 to the financial statements.

Basis for Opinion

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

Emphasis of a Matter

We draw attention to Note 22 to the financial statements which disclosed that as at December 31, 2021, the Company's estimated unimpaired paid-up capital amounting to ₱36.8 million is below the ₱50.0 million requirement. As at report date, the management is in the process of formalizing its plans to cover the deficiency. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 23 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Company. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REYES TACANDONG & CO.

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SEC Accreditation No. 86981-SEC Group A
Issued March 24, 2020
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BIR Accreditation No. 08-005144-007-2019
Valid until October 16, 2022
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Issued January 3, 2022, Makati City

May 25, 2022
Makati City, Metro Manila

Caritas Financial Plans, Inc.

(A Wholly Owned Subsidiary of Caritas Health Shield, Inc.)

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2021	2020
ASSETS			
Cash and cash equivalents	4	**₱7,393,597**	₱15,207,705
Investment in trust funds	5	**1,175,348,636**	1,231,600,452
Insurance premium fund	6	**8,979,096**	8,979,096
Investment securities	7	**22,357,831**	27,443,425
Receivables	8	**21,892,469**	23,876,064
Property and equipment:	9		
At revalued amount		**25,489,880**	–
At cost		**661,168**	15,848,699
Right-of-use assets	21	**3,088,776**	5,089,542
Net deferred tax assets	20	**–**	2,370,696
Other assets	10	**2,650,946**	3,222,392
TOTAL ASSETS		**₱1,267,862,399**	₱1,333,638,071
LIABILITIES AND EQUITY			
Liabilities			
Plan benefits payable	5	**₱168,040,520**	₱124,493,023
Accounts payable	12	**18,705,398**	9,601,920
Lease liabilities	21	**3,369,746**	5,616,489
Pre-need reserves	11	**963,583,368**	1,016,530,764
Insurance premium reserve	6	**8,888,998**	8,755,011
Other reserves	11	**6,808,187**	6,662,388
Net deferred tax liabilities	20	**1,372,232**	–
Other liabilities	13	**41,319,244**	47,961,357
Total Liabilities		**1,212,087,693**	1,219,620,952
Equity			
Capital stock	14	**150,000,000**	150,000,000
Contingency surplus	14	**72,540,000**	67,300,000
Other comprehensive income (loss)		**(9,667,258)**	10,329,779
Deficit	14	**(157,098,036)**	(113,612,660)
Total Equity		**55,774,706**	114,017,119
TOTAL LIABILITIES AND EQUITY		**₱1,267,862,399**	₱1,333,638,071

See accompanying Notes to Financial Statements.

Caritas Financial Plans, Inc.

(A Wholly Owned Subsidiary of Caritas Health Shield, Inc.)

STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	**2021**	2020
REVENUE			
Premium revenue	11	**₱121,531,170**	₱113,855,876
Trust fund income, net of trust fees	5	**28,864,482**	110,096,730
Others	15	**8,061,294**	8,323,576
		158,456,946	232,276,182
COSTS OF SERVICES			
Costs of contracts issued:			
Increase in pre-need, insurance premium and other reserves	6, 11	**146,874,473**	96,033,651
Documentary stamp taxes and registration fees		**505,399**	543,380
		147,379,872	96,577,031
Other direct costs and expenses	16	**27,333,105**	26,642,176
		174,712,977	123,219,207
GROSS PROFIT (LOSS)		**(16,256,031)**	109,056,975
GENERAL AND ADMINISTRATIVE EXPENSES	17	**47,322,348**	54,131,586
INCOME (LOSS) BEFORE INCOME TAX		**(63,578,379)**	54,925,389
INCOME TAX EXPENSE	20		
Current		**6,080,240**	7,316,237
Deferred		**615,590**	38,253
		6,695,830	7,354,490
NET INCOME (LOSS)		**(70,274,209)**	47,570,899
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss			
Fair value loss on investment securities [debt instruments classified as financial assets at fair value through other comprehensive income (FVOCI)]	7	**(21,989,944)**	(16,764,456)
Items not to be reclassified to profit or loss			
Fair value gain on investment securities (equity instruments classified as financial assets at FVOCI)	7	**18,848,084**	9,988,071
Revaluation income on property and equipment, net of deferred income tax		**8,916,631**	–
Remeasurement gain (loss) on retirement liability, net of deferred income tax	18	**900,905**	(612,597)
		6,675,676	(7,388,982)
TOTAL COMPREHENSIVE INCOME (LOSS)		**(₱63,598,533)**	₱40,181,917

See accompanying Notes to Financial Statements.

Caritas Financial Plans, Inc.
(A Wholly Owned Subsidiary of Caritas Health Shield, Inc.)

STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31 2021	2020
CAPITAL STOCK - ₱100 par value	14	**₱150,000,000**	₱150,000,000
CONTINGENCY SURPLUS	14		
Balance at beginning of year		**67,300,000**	67,300,000
Increase in contingency surplus		**5,240,000**	–
Balance at end of year		**72,540,000**	67,300,000
OTHER COMPREHENSIVE INCOME (LOSS)			
Cumulative Unrealized Gain (Loss) on Fair Value Changes of Investment Securities	7		
Balance at beginning of year		**10,024,708**	16,801,093
Unrealized fair value loss		**(29,466,214)**	(6,776,385)
Balance at end of year		**(19,441,506)**	10,024,708
Revaluation Surplus on Property and Equipment, Net of Deferred Income Tax			
Balance at beginning of year and revaluation		**8,916,631**	–
Transfer of revaluation surplus		**(348,359)**	–
Balance at end of year		**8,568,272**	–
Cumulative Remeasurement Gains on Retirement Liability	18		
Balance at beginning of year		**305,071**	917,668
Remeasurement gain (loss), net of deferred income tax		**879,114**	(612,597)
Effect of change in tax rate		**21,791**	–
Balance at end of year		**1,205,976**	305,071
		(9,667,258)	10,329,779
DEFICIT	14		
Balance at beginning of year		**(113,612,660)**	(161,183,559)
Net income (loss)		**(70,274,209)**	47,570,899
Transfer from cumulative unrealized gain on fair value changes of investment securities - realized gain in sale of investment securities (equity instruments classified as financial assets at FVOCI)		**26,324,354**	–
Transfer of revaluation surplus		**464,479**	–
Balance at end of year		**(157,098,036)**	(113,612,660)
		₱55,774,706	₱114,017,119

See accompanying Notes to Financial Statements.

Caritas Financial Plans, Inc.
(A Wholly Owned Subsidiary of Caritas Health Shield, Inc.)

STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax		**(₱63,578,379)**	₱54,925,389
Adjustments for:			
Increase in pre-need, insurance premium and other reserves	6, 11	**146,874,473**	96,033,651
Trust fund income, net of trust fees	5	**(28,864,482)**	(110,096,730)
Depreciation and amortization	9	**3,690,445**	6,494,648
Retirement benefits	18	**985,209**	1,448,251
Investment income	15	**(1,203,887)**	(1,168,352)
Interest expense on lease liabilities	21	**337,835**	702,397
Gain on termination of leases	21	**–**	(127,299)
Loss (gain) on disposal of:			
Property and equipment	9	**(185,310)**	39,727
Investment securities	7	**(19,952)**	(58,133)
Operating income before working capital changes		**58,035,952**	48,193,549
Decrease in:			
Receivables		**2,057,155**	20,141,491
Other assets		**591,490**	333,628
Decrease in:			
Plan benefits payable		**(155,994,586)**	(80,554,947)
Accounts payable		**9,103,478**	(1,163,658)
Other liabilities		**(4,173,862)**	7,083,306
Net cash flows used for operations		**(90,380,373)**	(5,966,631)
Withdrawals from trust funds	5	**157,035,341**	83,423,342
Contributions to trust funds	5	**(81,924,395)**	(70,424,095)
Benefits paid	18	**(1,533,965)**	–
Income taxes paid		**(103,961)**	(136,772)
Net cash provided by (used in) operating activities		**(16,907,353)**	6,895,844
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Investment securities	7	**18,761,043**	11,283,431
Property and equipment	9	**185,310**	–
Additions to:			
Investment securities	7	**(13,535,671)**	(11,794,627)
Property and equipment	9	**(103,186)**	(223,822)
Investment income received		**1,130,327**	1,194,624
Net cash provided by investing activities		**6,437,823**	459,606

(Forward)

	Note	Years Ended December 31 **2021**	2020
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in contingency surplus		**₱5,240,000**	₱–
Payments of lease liabilities	21	**(2,584,578)**	(5,504,851)
Net cash provided by (used in) financing activities		**2,655,422**	(5,504,851)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(7,814,108)**	1,850,599
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**15,207,705**	13,357,106
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**₱7,393,597**	₱15,207,705
NONCASH FINANCIAL INFORMATION			
Reclassification of insurance premium fund to investment securities	6	**₱–**	₱3,027,169

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Caritas Financial Plans, Inc. (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on October 31, 1993. The Company is primarily engaged to market and sell pension plans under which the savings of professionals, officers, directors and other personnel of corporations, firms, or entities, and self-employed can be pooled together, accumulated, and invested in profitable placements and productive enterprises so as to build a retirement estate for each individual participant or plan holder and provide maternity benefit program.

The Company is a wholly owned subsidiary of Caritas Health Shield, Inc. (CHSI or Parent Company), an entity incorporated in the Philippines, and engaged in the business of developing, conducting, maintaining, and arranging for and promoting comprehensive medical and health maintenance services.

The registered office address of the Company and its principal place of business is located at 3rd Floor, Katipunan Building, 95 E. Rodriguez Sr. Blvd., Quezon City.

The accompanying financial statements as at and for the years ended December 31, 2021 and 2020 were approved and authorized for issue by the Board of Directors (BOD) on May 25, 2022, as recommended for approval by the Audit Committee on the same date.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation and Statement of Compliance</u>

The financial statements of the Company have been prepared in accordance with the financial reporting standards in the Philippines for pre-need companies. Financial reporting standards in the Philippines for pre-need companies consist of the Pre-Need Rule 31, As Amended, *Accounting Standards for Pre-need and Pre-Need Uniform Chart of Accounts (PNUCA)* issued by the SEC and the Philippine Financial Reporting Standards (PFRS), applicable Insurance Commission (IC) Circular Letter and accounting requirements.

The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) that have been approved by the Financial Reporting Standards Council and adopted by the SEC.

Measurement Bases

The financial statements are presented in Philippine Peso, the functional currency of the Company. All amounts are in absolute values, unless otherwise indicated.

The financial statements have been prepared under the historical cost convention, except for building under "Property and equipment" account which is measured at revalued amount, and investment securities and financial assets at fair value through other comprehensive income (FVOCI) included under "Investment in trust funds" account that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability. 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 transaction date.

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

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

Level 1 − Quoted (unadjusted) market prices in active market for identical assets or liabilities.

Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

Further information about the assumptions made in measuring fair values is presented in Note 22, *Insurance and Financial Risks and Capital Management.*

Adoption of Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the amended PFRS 16, *Leases - COVID-19-Related Rent Concessions beyond June 30, 2021.*

In 2020, PFRS 16 was amended to provide practical expedient to lessees from applying the requirements on lease modifications for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for a change that is not a lease modification, e.g., as a variable lease payment. This amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted, and covers eligible rent concessions until June 30, 2021. The Company applied the practical expedient in its financial statements for the year ended December 31, 2020.

Due to continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allows lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022. The amendment is effective for annual reporting periods beginning on or after April 1, 2021 but earlier application is permitted. The 2021 amendment is mandatory for entities that elected to apply the previous amendment. Accordingly, the Company has applied the amendment in the current year financial statements.

The adoption of the amended PFRS did not materially affect the financial statements of the Company. Additional disclosures were included in the financial statements, as applicable.

New and Amended PFRS Issued But Not Yet Effective
Relevant new and amended PFRS, which are not yet effective as at December 31, 2021 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are fist applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS 2018 to 2020 Cycle:

  - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendments apply to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendments. Earlier application is permitted.

- Amendments to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

Effective for annual periods beginning on or after January 1, 2023 -

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2025 -

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. An amendment to the standard was issued to (i) reduce costs of transition by simplifying some requirements of the standard, (ii) make financial performance easier to explain, and (iii) ease transition by deferring the effectivity of the standard from 2021 to 2023 and by providing additional relief to reduce the effort required when applying PFRS 17 for the first time.

  In response to the challenges brought by the Covid-19 pandemic, the Insurance Commission issued Circular Letter 2020-062, *Amendment of Section 1 of Circular Letter No. 2018-69, Deferral of IFRS 17 Implementation,* which provides a two year deferral on the implementation of the standard from the 2023 effectivity date. Therefore, all life and nonlife insurance companies in the Philippines shall adopt PFRS 17 for annual periods beginning on or after January 1, 2025.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Company. Additional disclosures will be included in the financial statements, as applicable.

Financial Instruments (including Investment in Trust Funds and Insurance Premium Fund)

Date of Recognition. The Company recognizes a financial asset or liability in the statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

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

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Company deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference.

Financial Assets

Classification. The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at FVOCI. The classification of a financial instrument largely depends on the Company's business model and its contractual cash flow characteristics.

The Company does not have financial instruments classified as financial assets at FVPL.

Financial Assets at Amortized Cost. A financial asset should be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

This category includes cash and cash equivalents, corporate bonds, receivables and refundable lease deposits (under other assets).

Financial Assets at FVOCI. For debt instruments, financial assets should be measured at FVOCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the Company may irrevocably designate the financial asset to be measured at FVOCI in case the foregoing conditions are not met.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, financial assets at FVOCI are measured at fair value with unrealized gain or loss recognized in other comprehensive income (OCI) in the equity section of the statement of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years.

This category includes listed equity and government securities.

Financial Liabilities

Classification. The Company classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at FVPL.

The Company does not have financial liabilities measured at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

Accounts payable, lease liabilities and other liabilities (excluding planholders' deposits, retirement liability and statutory liabilities) are classified under this category.

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Reclassification of Financial Assets
The Company reclassifies its financial assets when, and only when, the Company changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the amortized cost category to financial assets at FVOCI, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

In the case of a financial asset that does not have a fixed maturity, the gain or loss should be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

Impairment of Financial Assets
The Company assesses at the end of each reporting year whether a financial asset or a group of financial assets is impaired.

The Company recognizes impairment losses on all debt instruments not measured at FVPL based on expected credit losses (ECL), which is the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The difference is then discounted at an approximation to the financial asset's original effective interest rate and adjusted for forward-looking estimates, as appropriate.

The Company has applied the general approach and has calculated ECL based on the 12-month ECL which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

For a financial asset that is credit-impaired at the reporting date, the Company should measure the ECL as the difference between the asset gross carrying amount and the present value of estimated future cash flows discounted at the financial asset original effective interest rate. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events, among others: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event or (c) the disappearance of an active market for that financial asset because of financial difficulties. It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Financial assets at amortized cost are written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Derecognition of Financial Assets and Liabilities
A financial asset (or where applicable, a part of a financial asset or part of a Company of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;

- the Company retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and benefits of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset, if any, is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

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

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

Prepayments
Prepayments are expenses paid in advance and recorded as asset before these are utilized. Prepayments are apportioned over the year covered by the payment and charged to appropriate expense accounts in profit or loss when incurred.

Property and Equipment
Property and equipment, except for building in 2020, are carried at historical cost less accumulated depreciation, amortization and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the asset. Starting 2021, the building is stated at revalued amount less any impairment in value.

The initial cost of property and equipment consists of the purchase price, including import duties and other costs directly attributable to bring the asset to its working condition and location for its intended use. Cost also includes the cost of replacing parts of such property and equipment when the recognition criteria are met.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to operations in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

As at December 31, 2021, the building is carried at revalued amount which represent fair values as determined by independent appraisers, less any accumulated impairment loss.

Any revaluation surplus is recognized in other comprehensive income and credited to the "Revaluation surplus on property and equipment - net of deferred tax" account under "Other comprehensive income" in the statements of financial position. Any revaluation deficit directly offsetting a previous surplus is charged to OCI to the extent of any revaluation surplus in equity relating to the same asset and the remaining deficit, if any, is recognized in profit or loss. Upon disposal of the revalued assets, amount included in revaluation surplus is transferred to retained earnings. Revaluations are performed regularly to ensure that the carrying amount does not materially differ from that which would be determined using fair value at the end of reporting period.

Transfer from revaluation surplus to retained earnings are made for the difference between the depreciation based on cost and the revalued carrying amount of property and equipment.

Major renovations that qualify for capitalization are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is shorter.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Asset Type	Number of Years
Building	30
Office equipment	5
Furniture and fixtures	5
Transportation equipment	4

Leasehold improvements are amortized on a straight-line basis over their useful lives of two years or the term of the lease, whichever is shorter.

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

Fully depreciated property and equipment are retained in the books until these are no longer in use.

The carrying amount of an item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. When assets are derecognized, their cost, accumulated depreciation and any impairment losses are eliminated from the accounts and any resulting gain or loss is included in profit or loss of such year.

Impairment of Nonfinancial Assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in profit or loss 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 and 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). Value in use requires entities to make estimates of future cash flows to be divided from a particular asset, and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset.

Plan Benefits Payable

This includes amount payable to planholders and beneficiaries in the course of settlement and incurred but not reported claims on the pre-need contract such as due but unpaid matured benefits, surrender benefits and annuity payments.

Pre-need Reserves (PNR)

PNR, which represents the accrued net liabilities of the Company to its planholders, are actuarially computed based on standards and guidelines set forth by the IC. The increase or decrease in the account is charged or credited to costs of contracts issued in profit or loss.

PNR is set up for all pre-need benefits guaranteed and payable by the Company as defined in the pre-need plan contracts. The recognition of PNR is based on the general requirements on provisioning and specific methodology. The amount recognized as a provision to cover the PNR is the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in determining the best estimate of a provision.

The amount of provision is the present value of the funding expected to be required to settle the obligation with due consideration of the different probabilities as follows:

(a) On currently-being-paid plans

Liability should be set up for the portion of currently-being-paid plans that will reach full payment, applying the full payment experience of the Company. It should be equivalent to the present value of future maturity benefits reduced by the present value of future trust fund contributions required per product model discounted at the prescribed rate by the IC.

Currently-being-paid plans pertain to accounts that are up-to-date in payment and include in-force plans as defined in the contract provision (i.e., plans within the 60-day grace period).

(b) On lapsed plans within the allowable reinstatement period

The liability that should be set up is equivalent to multiplying the reinstatement rate to the calculated present value of future maturity benefits reduced by the present value of future trust fund contributions less the sum of unpaid premiums from last unpaid due date to valuation date. The reinstatement rate is based on the experience of the Company.

(c) On fully paid plans

Liability should be set up for plans that have completed all installment payments. The reserve should be the present value of future maturity benefits discounted at the interest rate prescribed by the IC.

The rates of surrender, cancellation, reinstatement, and inflation, are based on the actual experience of the Company or the industry in the last three years.

Insurance Premium Reserve (IPR)
IPR, which represents the amount that must be set aside by the Company to pay for premiums for insurance coverage of fully paid planholders, is actuarially computed based on standards and guidelines set forth by the IC. The increase or decrease in the account is charged or credited to costs of contracts issued in profit or loss.

Other Reserves
Other reserves, which are optional but provided by the Company as a prudent measure, represent the amount set aside by the Company to cover the administrative expenses of fully paid plans. The increase or decrease in the account is charged or credited to costs of contracts issued in profit or loss.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued. Any additional capital contribution from the shareholders to comply with minimum capital requirements is credited to contingency surplus and can be withdrawn upon the approval of the IC.

Deficit. Deficit represents the cumulative balance of net loss of the Company.

Other Comprehensive Income. Other comprehensive income comprises of income and expenses (including items previously presented under the statement of changes in equity) that are not recognized in profit or loss for the year. Other comprehensive income includes revaluation surplus on property and equipment, cumulative unrealized gain (loss) on fair value changes of investment securities and cumulative remeasurement gains on retirement liability, net of deferred income tax.

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Company perform its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Company also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Company has assessed that it acts as a principal in all of its revenue sources.

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

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

Trust Fund Income. Income generated by the trust fund is recognized in profit or loss when earned. The portion of retained earnings representing the trust fund income is automatically restricted to payments of benefits of planholders and such other related payments as allowed under the Pre-Need Rules.

Investment Income. Investment income includes the following:

(a) *Interest Income.* Interest income is recognized in profit or loss using the effective interest method.

    The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or 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 estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received 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.

(b) *Dividend Income.* Dividend income is recognized when the right to receive payment is established.

Other Income. Other 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 collected.

Cost and Expense Recognition

Costs of Contracts Issued. Costs of contracts issued consists of:

(a) the increase in actuarial reserve liabilities in the current year as compared to the carrying amount of actuarial reserve liabilities in previous year. If there is a decrease in actuarial reserve liabilities as a result of new information or new developments, the amount should be deducted from the cost of contracts issued of the current year. In case of material prior period errors, the adjustment should be recognized and effected to prior years.

(b) documentary stamp tax and registration fees.

Other Direct Costs and Expenses. This account includes basic commissions, other commissions such as overrides and bonuses, insurance and other charges that constitute direct cost of contracts issued. Commissions, which are paid only to licensed active agents of the Company, are due and payable whenever there are collections on pre-need plans that are credited to premium income. Rates of commission vary depending on the product sold and mode of payment in accordance with the product design as approved by the IC.

General and Administrative Expenses. This account includes expenses incurred for the execution of administrative functions in the normal course of business. General and administrative expenses are recognized in profit or loss when incurred.

Leases

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

- the contract involves the use of an identified asset. This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and

- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. The Company has the right to direct the use of the asset if either:

  - the Company has the right to operate the asset; or

  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

The Company as a Lessee. At the commencement date of the lease, the Company recognizes ROU asset and lease liability. ROU assets are initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred, less any incentives received

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

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liabilities comprise the fixed payments, including in-substance fixed payments, and if applicable:

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liabilities are measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liabilities are remeasured, a corresponding adjustment is made to the carrying amount of the ROU assets, or is recorded in profit or loss if the carrying amounts of the ROU asset have been reduced to zero.

The Company has elected not to recognize ROU asset and lease liability for short-term leases for office branches that have a lease term of 12 months. The Company recognizes the lease payments associated with the lease as expense on a straight-line basis over the lease term.

<u>Employee Benefits</u>

Short-term Benefits. The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the year. Short-term employee benefits given by the Company to its employees include salaries and wages, social security contributions, short-term compensated absences and bonuses.

Retirement Benefits. The retirement benefits are determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Company recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements; and net interest expense or income in profit or loss. Net interest is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment; and the date that the Company recognizes restructuring-related costs.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement liability or asset) are recognized immediately in OCI in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The retirement liability is the aggregate of the present value of the retirement liability on which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

Related Party Relationship and Transactions

Related party transactions consist of transfers of resources, services or obligations between the Company and its related parties.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals who, by owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

Income Taxes

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

The current income tax charged 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 and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The Company has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the tax paid or withheld is included in current income tax expense.

Deferred income tax is determined using the tax rate (and tax laws) that have been enacted or substantively enacted as 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 (net operating loss carry-over, NOLCO) and unused tax credits (excess minimum corporate income tax, MCIT, over regular income tax, RCIT) to the extent that it is probable that future taxable income will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences.

The Company reassesses at each reporting date the need to recognize previously unrecognized deferred income tax assets.

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.

Provision and Contingencies

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

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.

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.

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

Events after Reporting Year

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

3. **Significant Judgments, Accounting Estimates and Assumptions**

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates, assumptions 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. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgments

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

Determining the Classification of Lease Arrangements and Appropriate Lease Term and Discount Rates

The Company, as a lessee, has entered into lease agreements for office branches used for operations. The Company recognizes ROU assets and lease liabilities on its office branches.
Significant judgment was likewise exercised by the Company in determining the discount rate to be used in calculating the present value of ROU assets and lease liabilities. The discount rate used ranges from 7% to 8% which is the incremental borrowing rate as obtained from the bank.

The Company has elected not to recognize ROU assets on the lease qualifying under the short-term recognition exemption. The Company recognizes the lease payments associated with this lease as an expense on a straight-line basis over the lease term.

The Company has exercised significant judgment in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Rent expense on the lease qualifying under the short-term recognition exemption amounted to ₱4.2 million and ₱4.3 million in 2021 and 2020, respectively (see Notes 17 and 21).

Amortization of ROU assets amounted to ₱2.0 million and ₱4.5 million in 2021 and 2020, respectively (see Note 21). The carrying amount of ROU assets amounted to ₱3.1 million and ₱5.1 million as at December 31, 2021 and 2020, respectively (see Note 21).

Interest expense on lease liabilities amounted to ₱337,835 and ₱702,397 in 2021 and 2020, respectively (see Note 21). Lease liabilities amounted to ₱3.4 million and ₱5.6 million as at December 31, 2021 and 2020, respectively (see Note 21).

Determining the Classification of Financial Instruments. Classification of financial instruments depends on the results of the business model and "sole payment of principal and interest" test performed by the Company. The Company exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives.

The classification on various financial assets and liabilities of the Company are disclosed in Note 2.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Determining the Fair Value of Financial Instruments. The fair values of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, discounted cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Inputs used in these models are from observable data and quoted market prices in respect of similar financial instruments.

All models are approved by the BOD before these are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments. The Company considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active market.

Assessing the Impairment Losses on Financial Assets. The Company assesses impairment losses on financial assets based on ECL using historical loss experience adjusted for forward-looking factors, as appropriate. The Company estimates impairment using 12-month or lifetime ECL, as applicable.

The Company has no historical loss experience and has assessed that the credit risk on financial assets, except for certain advances to employees, is low and has not significantly increased since initial recognition. Further information on credit quality of financial assets is disclosed in Note 22, *Insurance and Financial Risks and Capital Management.*

As at December 31, 2021 and 2020, the carrying amounts of financial assets subject for impairment are as follows:

	Note	**2021**	2020
Cash in banks and cash equivalents	4, 5	**₱79,175,431**	₱69,255,367
Corporate bonds	5, 7	**61,276,871**	618,660,717
Government securities	5, 7	**724,674,563**	194,895,930
Receivables	5, 8	**31,137,627**	30,457,113
Refundable lease deposits	10	**1,601,886**	1,947,475
		₱897,866,378	₱915,216,602

Assessing the Impairment of Nonfinancial Assets. The Company assesses impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds it recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Determining such amount requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets.

As at December 31, 2021 and 2020, the carrying amount of property and equipment amounted to ₱26.2 million and ₱15.8 million, respectively (see Note 9).

Estimating the PNR, IPR and Other Reserves. The Company determines its actual 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.

The actuarial assumptions in 2021 and 2020, which are being reviewed and adjusted annually to reflect current and projected experience, are summarized in the table below:

Rates	Assumptions
Investment rate of return on trust funds (per annum)	5.0% to 5.5% in 2021 5.0% to 6.0% in 2020
Annual insurance premiums (per ₱1,000 coverage)	0.72 to 6.29
Lapse/withdrawal rate	

Year	Lapse Rate	Withdrawal Rate
1	41.99%	0.11%
2	22.92%	0.40%
3	8.77%	0.46%
4	4.71%	0.31%
5	1.93%	0.44%
6	0%	0%

Termination value rate	Termination value during the paying period is a percentage of the installments paid as of plan anniversary. Termination value of fully paid plans is a percentage of the maturity benefit

- Investment rate of return on trust funds

  The Company's actual experience is 1.86% and 8.96% in 2021 and 2020, respectively. Realized investment income from trust fund assets (net of trust fees and final taxes) amounted to ₱22.9 million and ₱102.9 million in 2021 and 2020, respectively (see Note 5). In addition, unrealized fair value change in investment securities amounted to loss of ₱4.0 million and ₱6.7 million in 2021 and 2020, respectively (see Note 5).

- Annual insurance premiums

  The Company purchases group insurance benefits from a related insurance company. Since the pre-need plans have limited paying period, the Company sets aside an IPR to be able to pay for the insurance premiums due after the paying period. Annual insurance premiums pertain to the estimated amount of premiums to be paid after the paying period.

  As at December 31, 2021 and 2020, IPR amounted to ₱8.9 million and ₱8.8 million, respectively (see Note 6).

- Lapse and withdrawal rate

  The lapse and withdrawal rate assumptions are based on the latest persistency study and are set to zero after the premium paying period.

- Termination value rate

  Termination value rate pertains to the amount to be recovered by the planholder, as prescribed by the IC, upon surrender of the plan, expressed as a percentage of the gross contract price of the plan during the paying period, based on the premiums paid by the planholder, and a percentage of the maturity benefit after the paying period.

As at December 31, 2021 and 2020, PNR and other reserves amounted to ₱970.4 million and ₱1,023.2 million, respectively (see Note 11).

It is reasonably possible that the assumptions used will significantly differ within the next financial year resulting to a material adjustment to the carrying amounts of the PNR, IPR and other reserves as at December 31, 2021 and 2020. The Company considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the actuarial assumptions at the reporting date.

Determination of the Revaluation Value of Building. In 2021, the Company changed from cost model to revaluation model to measure its building. Under the revaluation model, the asset is carried at revalued amount, which approximates its fair value at the date of the revaluation less any accumulated impairment losses. The change from cost model to revaluation model is not required to be applied retrospectively.

The increase in the carrying amount as a result of the revaluation, net of deferred income tax, amounted to ₱8.9 million (see Note 9) which is included in "Revaluation surplus on property and equipment - net of deferred tax" account under "Other comprehensive income" in the statements of financial position.

The valuation of building is performed by qualified independent appraisers. The fair value was determined using the market data approach based on the gathered available market evidences. Revaluations are to be made on a regular basis to ensure that the fair value does not differ materially from its carrying amounts.

The carrying amount of building at revalued amount amounted to ₱25.5 million as at December 31, 2021 (see Note 9).

Estimating the Useful Lives of Property and Equipment and ROU Assets. The Company reviews annually the estimated useful lives of its property and equipment and ROU assets based on expected asset utilization and market behavior. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned. A change in the estimated useful life of property and equipment and ROU assets will have an impact on the recorded costs and expenses. The Company considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the assumptions at the reporting date.

There is no change in the estimated useful lives of property and equipment and ROU assets in 2021 and 2020. The aggregate carrying amount of property and equipment and ROU assets amounted to ₱29.2 million and ₱20.9 million as at December 31, 2021 and 2020, respectively (see Notes 9 and 21).

Determining the Retirement Liability. The present value of the retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for retirement include the discount rate and salary increase rate. Any changes in these assumptions will impact the carrying amount of retirement liability.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liability. In determining the appropriate discount rate, the Company considers the 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 obligation. Sensitivity analyses of these actuarial assumptions are presented in Note 18.

Other key assumptions for retirement liability are based in part on current market conditions.

As at December 31, 2021 and 2020, retirement liability amounted to ₱5.5 million and ₱7.2 million, respectively (see Note 18).

Assessing the Realizability of Deferred Income Tax Assets. Recognition of deferred income tax assets depends on management's assessment of the probability of available future taxable income against which the temporary differences can be applied. This assessment, which is based on the Company's past results and future expectations on revenues and expenses, is reviewed at each reporting date.

As at December 31, 2021 and 2020, recognized deferred income tax assets amounted to ₱1.6 million and ₱2.4 million, respectively (see Note 20).

As at December 31, 2021 and 2020, unrecognized deferred income tax assets amounted to ₱22.8 million and ₱36.0 million (see Note 20). Management assessed that there will be no sufficient taxable income in the future from which the deferred income tax assets on NOLCO and excess MCIT over RCIT may be applied prior to its expiration.

4. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash on hand	**₱115,600**	₱168,100
Cash in banks	**6,664,249**	14,847,715
Cash equivalents	**613,748**	191,890
	₱7,393,597	₱15,207,705

Cash in banks and cash equivalents earn interest at prevailing bank deposit rates.

Cash equivalents pertain to short-term placements for varying periods of less than three months, which include time deposits and investments in the special deposit accounts of the Bangko Sentral ng Pilipinas that are under the Investment Management Account (IMA) agreement.

Interest income earned from cash and cash equivalents amounted to ₱30,545 and ₱54,044 in 2021 and 2020, respectively (see Note 15).

5. Investment in Trust Funds

Trust funds pertain to the net asset value of funds set up for the estimated cost of benefits or services to be rendered in accordance with the plan contracts sold. Investment in trust funds is carried at net asset value, which is determined as trust fund assets less trust fund liabilities. In accordance with existing IC rules and regulations, the Company is required to deposit a certain portion of the collections from planholders with trustee banks to ensure future payments of pension to planholders upon maturity of the plans. Deposits made based on applicable rules and regulations of the IC are adjusted annually to conform to the actuary's study and evaluation.

The Company’s trust funds are administered and managed by two universal banks.

Trust fund assets and liabilities and net asset value as at December 31 consist of:

	2021	2020
Trust Fund Assets		
Financial assets at amortized cost:		
Cash and cash equivalents	**₱71,897,434**	₱54,215,762
Receivables	**9,245,158**	6,581,049
Corporate bonds	**56,608,569**	613,240,546
Financial assets at FVOCI:		
Government securities	**715,646,563**	180,368,743
Listed equity securities	**332,854,671**	380,523,392
	1,186,252,395	1,234,929,492
Trust Fund Liabilities		
Accrued expenses and other liabilities	**(10,903,759)**	(3,329,040)
Net Asset Value	**₱1,175,348,636**	₱1,231,600,452

Corporate bonds pertain to fixed rate bonds of various private corporations. Government securities comprise various government fixed-term notes and retail treasury bonds with maturity of two to 20 years.

Movements in the trust fund balance are summarized as follows:

	2021	2020
Balance at beginning of year	**₱1,231,600,452**	₱1,148,330,848
Withdrawals	**(157,035,341)**	(83,423,342)
Contributions	**81,924,395**	70,424,095
Trust fund income, net of trust fees and final taxes	**22,857,280**	102,917,265
Changes in unrealized fair value	**(3,998,150)**	(6,648,414)
Balance at end of year	**₱1,175,348,636**	₱1,231,600,452

Trust fund income is automatically restricted for the payments of benefits of planholders. The details of trust fund income, net of trust fees and final taxes are as follows:

	2021	2020
Investment income from trust fund assets	**₱33,522,108**	₱113,272,999
Trust fees	**(4,657,626)**	(3,176,269)
	28,864,482	110,096,730
Final taxes	**(6,007,202)**	(7,179,465)
	₱22,857,280	₱102,917,265

In compliance with the Pre-Need Code, the net asset value of the trust funds should be at least equal to the required PNR as determined by a qualified actuary using the method prescribed by the IC.

The reconciliation of the trust fund balance with the aggregate balance of PNR and plan benefits payable is as follows:

	Note	**2021**	2020
Net asset value of trust funds		**₱1,175,348,636**	₱1,231,600,452
PNR	11	**(963,583,368)**	(1,016,530,764)
Plan benefits payable		**(168,040,520)**	(124,493,023)
Excess of trust funds over sum of PNR and plan benefits payable		**₱43,724,748**	₱90,576,665

In 2021 and 2020, total pension benefits and surrender values amounted to ₱199.5 million and ₱143.3 million, respectively (see Note 11). In 2021 and 2020, payments were made through withdrawal from the trust funds of ₱157.0 million and ₱83.4 million, respectively.

Section 34 of the Pre-Need Code establishes the limitations on the investment portfolio mix for trust funds.

To ensure the liquidity of the trust fund to guarantee the delivery of the benefits provided for under the plan contract and likewise obtain sufficient capital growth to meet the growing actuarial reserve liabilities, all investments of the trust fund/s of a pre-need company should be subject to limitations as follows:

(a) Fixed Income Instruments

These may be classified into short-term and long-term instruments. The instrument is short-term if the maturity period is 365 days or less. This category includes:

(i) Government securities which should not be less than 10% of the trust fund amount.

(ii) Savings/time deposits and unit investment trust funds maintained and managed by a duly authorized bank with satisfactory examination rating as of the last examination by the Bangko Sentral ng Pilipinas.

(iii) Commercial papers duly registered with the IC with a credit rating of “1” for short-term and “AAA” for long-term based on the rating scale of an accredited Philippine Rating Agency or its equivalent at the time of investment.

(iv) Direct loans to corporations which are financially stable, profitable for the last three years and have a good track record of paying their previous loans. These loans should be fully secured by a real estate mortgage up to the extent of 60% of the zonal valuation of the property at the time the loan was granted. The property should be covered by a transfer certificate of title registered in the name of the mortgagor and free from liens and encumbrances. The maximum amount to be allocated for direct loans should not exceed 5% of the total trust fund amount while the amount to be granted to each corporate borrower should not exceed 10% of the amount allocated. The maximum term of the loan should be no longer than four years. Direct loans to planholders are exempt from the limitations set forth; provided, that such loans to planholders should not exceed 10% of the total trust fund amount.

(b) Equities

Investment in equities should be limited to stocks listed on the main board of a local stock exchange. Investments in duly registered collective investment instruments such as mutual funds are allowed; provided, that such funds are invested only in fixed income instruments and blue chips securities, subject to the limitations prescribed by laws, rules and regulations. These investments should include stocks issued by companies that are financially stable, actively traded, possess good track record of growth and have declared dividends for the past three years. Notwithstanding the prohibition against transactions with directors, officers, stockholders and related interests, the trustee may invest in equities of companies related to the trustee provided these companies comply with the foregoing criteria provided in this paragraph for equity investments.

The amount to be allocated for this purpose should not exceed 30% of the total trust fund while the investment in any particular issue should not exceed 10% of the allocated amount.

(c) Real Estate

These should include real estate properties located in strategic areas of cities and first class municipalities. The transfer certificate of title (TCT) should be in the name of the seller, free from liens and encumbrances and should be transferred in the name of the trustee in trust for the planholders unless the seller/transferor is the pre-need company wherein an annotation to the TCT relative to the sale/transfer may be allowed. It should be recorded at acquisition cost. However, the real estate should be appraised every three years by a licensed real estate appraiser, accredited by the Philippine Association of Real Estate Appraisers, to reflect the increase or decrease in the value of the property. In case the appraisal would result in an increase in the value, only 60% of the appraisal increase is allowed to be recorded in the books of the trust fund but in case of decline in value, the entire decline should be recorded. Appraisal increment should not be used to cover-up the required monthly contribution to the trust fund.

Under IC Circular Letter 2019-27, issued on June 21, 2019, investment in real estate investment trust (REIT) should not exceed 15% of the total trust fund.

Investment of the trust fund, which is not in accordance with the preceding paragraphs, should not be allowed unless the prior written approval of the IC had been secured; *Provided, further,* That no deposit or investment in any single entity should exceed 15% of the total value of the trust fund; *Provided, finally,* that the IC is authorized to adjust the percentage allocation per category set forth herein not in excess of 2% points upward or downward and no often than once every five years. The pre-need company should not use the trust fund to extend any loan to or to invest in its directors, stockholders, officers or its affiliates.

There are no investments in real estate properties as at December 31, 2021 and 2020.

(d) Liquidity Reserve Fund

As at December 31, 2021 and 2020, the trust fund balance also includes the liquidity reserve fund amounting to ₱787.5 million and ₱234.6 million, respectively, which comprise cash and cash equivalents and government securities.

As provided under Section 37 of the Pre-Need Code, the trustee should at all times maintain a liquidity reserve which should be sufficient to cover at least 15% of the trust fund but in no case less than 125% of the amount of the availing plans for the succeeding year. The liquidity reserve fund should consist of cash or assets in the trust fund that is easily convertible to cash. The qualified investments for the Liquidity Reserve Fund are evidence of indebtedness of the Republic of the Philippines and savings and/or time deposits.

Existing investments which are not in accordance with prescribed limitations should be disposed of within three years, otherwise these will be disallowed/unqualified assets in the trust fund.

As at December 31, 2021, the Company is in compliance with the foregoing implementing guidelines of the foregoing circular.

As at December 31, 2020, the Company is not in compliance with the required commercial papers and equities. As at first quarter of 2021, the Company has complied with the investment portfolio mix for trust funds.

6. Insurance Premium Fund/Insurance Premium Reserve (IPR)

Insurance premium fund represents financial assets such as investments in equity securities that are restricted to cover the payment of insurance premiums after the paying period for the pre-need plan. The fund should at least equal to the amount computed for the insurance premium reserve.

Insurance premium fund, which is at least equal to the amount of the reserve determined by an IC accredited actuary, consists of a portion of the listed equity securities under IMA.

The insurance premium fund amounted to ₱9.0 million as at December 31, 2021 and 2020. In 2020, insurance premium fund amounting to ₱3.0 million was reclassified to "Investment securities" account (see Note 7).

IPR was set up for the cost of insurance premiums to be paid after the installment paying period with respect to pre-need plans with insurance coverage.

Movements of IPR are as follows:

	2021	2020
Balance as at beginning of year	**₱8,755,011**	₱9,663,814
Increase (decrease) in IPR	**133,987**	(908,803)
Balance as at end of year	**₱8,888,998**	₱8,755,011

7. Investment Securities

This account consists of:

	2021	2020
Financial assets at FVOCI:		
Government securities	**₱9,028,000**	₱14,527,187
Listed equity securities	**8,661,529**	7,496,067
	17,689,529	22,023,254
Financial assets at amortized cost -		
Corporate bonds	**4,668,302**	5,420,171
	₱22,357,831	₱27,443,425

Movement of investment securities are as follows:

	2021			2020		
	Financial Assets at			Financial Assets at		
	FVOCI	**Amortized Cost**	**Total**	FVOCI	Amortized Cost	Total
Balances at beginning of year	**₱22,023,254**	**₱5,420,171**	**₱27,443,425**	₱18,808,665	₱5,166,233	₱23,974,898
Additions	**12,928,833**	**606,838**	**13,535,671**	8,100,766	3,693,861	11,794,627
Disposals	**(17,352,227)**	**(1,388,864)**	**(18,741,091)**	(7,794,937)	(3,430,361)	(11,225,298)
Net unrealized fair value gain (loss)	**89,669**	**30,157**	**119,826**	(118,409)	(9,562)	(127,971)
Reclassification (see Note 6)	**–**	**–**	**–**	3,027,169	–	3,027,169
Balances at end of year	**₱17,689,529**	**₱4,668,302**	**₱22,357,831**	₱22,023,254	₱5,420,171	₱27,443,425

Investment securities are managed by local banks under IMA undertaken by the Company for the management and custodianship of its investible funds subject to the terms and conditions of the said agreement.

Movements in cumulative unrealized gain (loss) on fair value changes of investment securities are as follows:

	2021	2020
Balance at beginning of year	**₱10,024,708**	₱16,801,093
Fair value gain transferred to retained earnings	**(26,324,354)**	–
Unrealized fair value loss	**(3,141,860)**	(6,776,385)
Balance at end of year	**(₱19,441,506)**	₱10,024,708

Gain on sale of investments amounted to ₱19,952 and ₱58,133 in 2021 and 2020, respectively (see Note 15). Total proceeds from the sale of investment securities amounted to ₱18.8 million and ₱11.3 million in 2021 and 2020, respectively.

Interest income earned from fixed-income securities amounted to ₱358,001 and ₱364,979 in 2021 and 2020, respectively (see Note 15).

8. Receivables

This account consists of:

	Note	**2021**	2020
Due from related parties	19	**₱19,009,566**	₱22,108,529
Advances to employees		**1,897,755**	1,371,770
Others		**1,808,442**	1,219,059
		22,715,763	24,699,358
Allowance for impairment losses on advances to employees		**(823,294)**	(823,294)
		₱21,892,469	₱23,876,064

Receivables, except for advances to employees, are unsecured, non-interest bearing and expected to be collected within 12 months from the reporting dates.

Interest income earned on advances to employees amounted to ₱3,396 and ₱12,021 in 2021 and 2020, respectively (see Note 15).

There are no other transfers between 12-month and lifetime ECL.

9. Property and Equipment

Movements of property and equipment at cost are as follows:

	2021				
	Leasehold Improvements	**Office Equipment**	**Furniture and Fixtures**	**Transportation Equipment**	**Total**
Cost					
Balance at beginning of year	**₱6,238,273**	**₱5,436,909**	**₱7,645,677**	**₱6,242,947**	**₱25,563,806**
Additions	**–**	**25,982**	**77,204**	**–**	**103,186**
Retirement	**(307,372)**	**–**	**(455,343)**	**–**	**(762,715)**
Balance at end of year	**5,930,901**	**5,462,891**	**7,267,538**	**6,242,947**	**24,904,277**
Accumulated Depreciation and Amortization					
Balance at beginning of year	**6,197,102**	**4,983,690**	**7,159,623**	**6,064,058**	**24,404,473**
Depreciation and amortization	**41,171**	**150,986**	**238,082**	**171,112**	**601,351**
Retirement	**(307,372)**	**–**	**(455,343)**	**–**	**(762,715)**
Balance at end of year	**5,930,901**	**5,134,676**	**6,942,362**	**6,235,170**	**24,243,109**
Carrying Amount	**₱–**	**₱328,215**	**₱325,176**	**₱7,777**	**₱661,168**

	2020					
	Building	Leasehold Improvements	Office Equipment	Furniture and Fixtures	Transportation Equipment	Total
Cost						
Balance at beginning of year	₱18,715,438	₱8,396,925	₱5,213,087	₱7,779,963	₱6,242,947	₱46,348,360
Additions	–	–	223,822	–	–	223,822
Retirement	–	(2,158,652)	–	(134,286)	–	(2,292,938)
Balance at end of year	18,715,438	6,238,273	5,436,909	7,645,677	6,242,947	44,279,244
Accumulated Depreciation and Amortization						
Balance at beginning of year	3,402,224	8,035,559	4,794,697	6,710,235	5,731,558	28,674,273
Depreciation and amortization	623,848	320,195	188,993	543,947	332,500	2,009,483
Retirement	–	(2,158,652)	–	(94,559)	–	(2,253,211)
Balance at end of year	4,026,072	6,197,102	4,983,690	7,159,623	6,064,058	28,430,545
Carrying Amount	₱14,689,366	₱41,171	₱453,219	₱486,054	₱178,889	₱15,848,699

Furniture and fixtures and leasehold improvements with aggregate carrying amount of nil were sold resulting to a gain of ₱185,310 in 2021. In 2020, property and equipment with aggregate carrying amount of ₱39,727 were disposed resulting to loss of the same amount.

In 2021, the Company adopted the revaluation model in measuring its building. In accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the retrospective application of the change in accounting policy does not apply on the initial adoption of a policy to revalue a property and equipment. The change in accounting policy has been applied as at and for the year ended December 31, 2021 based on appraisal reports as at February 2, 2021.

In 2021, movements of building at revalued amount are as follows:

Cost	
Balance at beginning of year	**₱18,715,438**
Revaluation	**15,201,143**
Balance at end of year	**33,916,581**
Accumulated Depreciation and Amortization	
Balance at beginning of year	**4,026,072**
Revaluation	**3,312,301**
Depreciation and amortization	**1,088,328**
Balance at end of year	**8,426,701**
Carrying Amount	**₱25,489,880**

The appraisal resulted to an increase in revaluation surplus, net of deferred income tax, amounting to ₱8.9 million in 2021. Revaluation surplus, net of deferred income tax, amounting to ₱348,359 was transferred to retained earnings in 2021.

The appraised amount of building was arrived using the market data approach. With market data approach, the value of the property is based on sales and listings of comparable properties registered in the vicinity. The technique of this approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator and adjustment of the differences between the subject property and those actual sales and listings regarded as comparable. The comparison was premised on the factors of location, characteristics of the lot, time element, quality and prospective use. The fair value measurement for building based on Market Data has been categorized under Level 3.

The significant unobservable inputs to fair valuation are as follows:

Price per square meter: estimated value prevailing in the real estate market depending on the location, area, shape and time element. The price per square meter ranges from ₱94,000 to ₱99,000 in 2021.

Value adjustments: adjustments are made to bring the comparative values in approximation to the investment properties taking into account external factors (market conditions, competitiveness, economic condition/demand/growth, time element) and internal factors (location, size/shape/ terrain and development).

Sensitivity Analysis. The following factors were considered in determining the market value of the subject property:

- property location and neighborhood data
- present use of the property
- quantitative market value adjustments based on external and internal factors
- highest and best use

Significant increase (decrease) in price per square meter would result in a significantly higher (lower) fair value measurement. Significant increase (decrease) in value adjustment would result in a significantly higher (lower) fair value measurement.

Had the building been carried at cost less accumulated depreciation, the carrying amount would have been as follows:

Cost	₱18,715,438
Accumulated depreciation	4,649,920
Carrying amount	₱14,065,518

Depreciation and amortization recognized under "General and other administrative expenses" in the statements of comprehensive income are as follows:

	Note	2021	2020
ROU assets	21	**₱2,000,766**	₱4,485,165
Property and equipment		**1,689,679**	2,009,483
	17	**₱3,690,445**	₱6,494,648

Fully depreciated property and equipment, with acquisition cost of ₱24.9 million and ₱24.4 million as at December 31, 2021 and 2020, respectively, are still being used in operations.

10. Other Assets

This account consists of:

	Note	2021	2020
Refundable lease deposits	21	**₱1,601,886**	₱1,947,475
Prepaid registration fees		**121,697**	320,931
Prepaid rent		**72,073**	87,588
Others		**855,290**	866,398
		₱2,650,946	₱3,222,392

Others include deposits for renovation of offices.

11. Pre-need Reserves/Other Reserves

Based on the computation of an internal qualified actuary accredited by the IC, the required PNR amounted to ₱963.6 million and ₱1,016.5 million as at December 31, 2021 and 2020, respectively.

In addition, other reserves were set up to cover the administrative expenses that will be incurred by the Company after the installment paying period. Other reserves amounted to ₱6.8 million and ₱6.7 million as at December 31, 2021 and 2020, respectively.

Movements of PNR and other reserves are as follows:

	Note	PNR	Other Reserves	Total
Balance as at December 31, 2019		₱1,062,580,215	₱6,952,482	₱1,069,532,697
Increase (decrease) in reserves		97,232,548	(290,094)	96,942,454
Pension benefits and surrender values	5	(143,281,999)	–	(143,281,999)
Balance as at December 31, 2020		1,016,530,764	6,662,388	1,023,193,152
Increase in reserves		146,594,687	145,799	146,740,486
Pension benefits and surrender values	5	(199,542,083)	–	(199,542,083)
Balance as at December 31, 2021		₱963,583,368	₱6,808,187	₱970,391,555

The details of the pre-need plans that were considered in the computation of the actuarial PNR are as follows:

	2021	2020
Total premium collections (premium revenue)	**₱121,531,170**	₱113,855,876
Contract price of lapsed plans, net of reinstatements	**₱431,504,200**	₱649,361,500
Contract price of cancelled plans	**₱2,062,432,700**	₱1,760,897,100
Number of fully paid and currently-being-paid plans	**17,131**	19,197
Number of lapsed plans, net of reinstatements	**3,977**	6,391
Number of cancelled plans	**32,434**	29,511

Principal assumptions used in determining the PNR based on the actuarial valuation report are as follows:

		Amount	
Status of pre-need product	Rate (%)	**2021**	2020
Currently-being-paid plans	5.0 - 6.0	**₱105,967,288**	₱96,012,994
Fully-paid plans	5.0 - 6.0	**806,010,977**	879,375,203
Lapsed and cancelled plans	5.0 - 6.0	**51,605,103**	41,142,567

The Company is considering other factors in arriving at the assumptions that are used in the computation of PNR, which may change over time. Based on these, the Company makes amendments and submits such amendments to the IC.

12. Accounts Payable

This account consists of:

	Note	**2021**	2020
Due to related parties	19	**₱7,590,641**	₱4,019,775
Accounts payable		**11,114,757**	5,582,145
		₱18,705,398	₱9,601,920

Accounts payable are unsecured, non-interest bearing, and expected to be settled within 12 months from the reporting date.

13. Other Liabilities

This account consists of:

	Note	**2021**	2020
Planholders' deposits		**₱16,832,880**	₱22,382,587
Agents' bond reserve		**8,345,223**	8,073,353
Agents' provident fund contributions		**8,189,509**	7,923,371
Retirement liability	18	**5,451,437**	7,172,345
Statutory liabilities		**1,339,168**	1,426,085
Net deferred tax liability	20	**1,372,232**	–
Others		**1,161,027**	983,616
		₱42,691,476	₱47,961,357

Maturities of other liabilities are as follows:

	2021	2020
Within 12 months	**₱20,705,307**	₱24,792,288
Over one year	**21,986,169**	23,169,069
	₱42,691,476	₱47,961,357

Planholders' deposits pertain to payments on new plan application not yet issued, excess fractional payments of a regular installment and collections for policies that have yet to be identified and applied.

Agents' bond reserve pertains to the required bond for the Company's agents. Bond reserve will be used to cover any outstanding liability of agents upon resignation, termination or expiration of license.

Agents' provident fund contributions pertain to amounts withheld on agents' commissions which will be paid upon their resignation.

14. Equity

Capital Stock

The details of the capital stock are as follows:

	Number of Shares	Amount
Authorized	3,000,000	₱300,000,000
Issued and outstanding	1,500,000	150,000,000

Contingency Surplus

The contingency surplus of ₱72.5 million and ₱67.3 million as at December 31, 2021 and 2020, respectively, represents additional capital contribution of the Company's shareholders.

Deficit

Accumulated net trust fund income amounting to ₱356.8 million and ₱333.9 million as at December 31, 2021 and 2020, respectively, are restricted for the payment of benefits of planholders. As at December 31, 2021 and 2020, deficit gross of accumulated net trust fund income amounted to ₱513.9 million and ₱447.5 million, respectively.

15. **Other Income** - Net

This account consists of:

	Note	2021	2020
Service fees and loading income		**₱5,755,371**	₱5,719,001
Investment income:			
Dividend income		**811,945**	737,308
Interest income from:			
Fixed-income securities	7	**358,001**	364,979
Cash and cash equivalents	4	**30,545**	54,044
Advances to employees	8	**3,396**	12,021
Gain on sale of investment securities	7	**19,952**	58,133
Gain on termination of leases	21	**–**	127,299
Others		**1,082,084**	1,250,791
		₱8,061,294	₱8,323,576

Service fees and loading income pertain to additional fees charged to planholders who avail of the installment payment scheme. Others include gain (loss) on disposal of property and equipment, policy fees, reinstatement fees and surcharges pertaining to lapsed plans.

16. **Other Direct Costs and Expenses**

This account consists of:

	2021	2020
Commissions:		
Basic	**₱13,361,402**	₱12,210,944
Overriding	**6,862,366**	6,533,701
Renewal	**2,461,360**	2,938,822
Collecting	**867,767**	601,476
Bonuses and incentives	**213,317**	248,695
	23,766,212	22,533,638
Insurance	**3,566,893**	4,108,538
	₱27,333,105	₱26,642,176

17. **General and Administrative Expenses**

Details of this account are as follows:

	Note	**2021**	2020
Salaries and wages		**₱26,055,475**	₱28,642,923
Rent	21	**4,161,603**	4,327,677
Depreciation and amortization	9	**3,690,445**	6,494,648
Directors' fees	19	**3,029,111**	2,800,333
Travel		**2,237,472**	2,734,414
Utilities		**1,472,393**	1,972,560
Professional and management fees		**1,078,778**	1,009,389
Retirement benefits	18	**985,209**	1,448,251
Taxes and licenses		**980,914**	714,694
Office supplies		**593,646**	572,448
Seminars and trainings		**556,646**	926,750
Advertising		**539,979**	723,285
Interest expense on lease liabilities	21	**337,835**	702,397
Others		**1,602,842**	1,061,817
		₱47,322,348	₱54,131,586

18. **Retirement Liability**

The Company has an unfunded and non-contributory defined benefit retirement plan covering all of its officers and regular employees. Under the retirement plan, all covered officers and employees are entitled to retirement benefits of one-half monthly pay for every year of credited service based on the salary at the time of retirement after satisfying certain age and service requirements.

Actuarial valuation of the retirement benefits was sought from the Company's actuary. Actuarial valuations are made periodically to update the retirement liability. The latest actuarial valuation report was dated as at December 31, 2021.

The components of retirement benefits charged to operations are as follows:

	Note	**2021**	2020
Current service cost		**₱757,842**	₱1,221,291
Interest cost		**227,367**	226,960
	17	**₱985,209**	₱1,448,251

Retirement liability is included as part of "Other liabilities" account.

Movements in retirement liability are as follows:

	Note	**2021**	2020
Balance as at beginning of year		**₱7,172,345**	₱4,848,956
Current service cost		**757,842**	1,221,291
Interest cost		**227,367**	226,960
Benefits paid		**(1,533,965)**	–
Remeasurements:			
Effect of changes in financial assumptions		**(1,187,202)**	875,420
Effect of experience adjustments		**15,050**	(282)
Balance as at end of year	13	**₱5,451,437**	₱7,172,345

The cumulative remeasurement gains on retirement liability recognized in OCI are as follows:

	Cumulative Remeasurement Gains	**Deferred Income Tax (Note 20)**	**Net**
Balance as at January 1, 2021	**₱435,816**	**(₱130,745)**	**₱305,071**
Remeasurement loss	**1,172,152**	**(293,038)**	**879,114**
Effect of change in tax rate	**–**	**21,791**	**21,791**
Balance as at December 31, 2021	**₱1,607,968**	**(₱401,992)**	**₱1,205,976**

	Cumulative Remeasurement Gains	Deferred Income Tax (Note 20)	Net
Balance as at January 1, 2020	₱1,310,954	(₱393,286)	₱917,668
Remeasurement loss	(875,138)	262,541	(612,597)
Balance as at December 31, 2020	₱435,816	(₱130,745)	₱305,071

The principal actuarial assumptions used in determining the retirement liability for the years ended December 31 are shown below:

	2021	2020
Discount rate	**5.09%**	3.97%
Salary increase rate	**5.00%**	5.00%
Average remaining working lives of employees	**20 years**	20 years

Discount Rate. The discount rate reflects the benefit cash flows and use of zero coupon rates, even though theoretically derived.

The bootstrapping method was applied to the PDST-R2 benchmark government bonds to arrive at the theoretical zero coupon yield curve. 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.

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 future mortality and disability rates are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the Company to a number of risks such as interest rate risk and salary risk in which most significant relates to interest rate risk. 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 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.

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

	Retirement Liability			
	2021		2020	
	Amounts	**%**	Amounts	%
Discount rate:				
Increase by 100 bps	**₱4,539,529**	**(6%)**	₱5,951,586	(5%)
Decrease by 100 bps	**6,599,427**	**4%**	8,737,543	3%
Salary increase rate:				
Increase by 100 bps	**6,557,349**	**6%**	8,662,246	6%
Decrease by 100 bps	**4,552,808**	**(4%)**	5,980,465	(4%)

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 liability recognized in the statements of financial position.

The projected maturity analysis of undiscounted retirement benefit payments are as follows:

	2021	2020
Less than one year	**₱–**	₱307,615
More than one year to five years	**–**	376,979
More than five years to 10 years	**2,517,197**	3,014,154
More than 10 years to 20 years	**23,789,427**	23,640,170
More than 20 years	**119,456,459**	146,944,650

19. Related Party Transactions and Balances

In the normal course of business, the Company has transactions with CHSI and Caritas Life Insurance Corporation, an entity under common control, relating to the sale of life insurance contracts to their health card members and/or pension planholders and advances for working capital requirements.

The table below summarizes the Company's transactions and balances with its related parties.

			Amount of Transactions		Outstanding Balance	
	Note	Nature of Transactions	**2021**	2020	**2021**	2020
Due from Related Parties						
Parent Company		Cash advances and premium collections on behalf of the Company	**(₱3,098,963)**	(₱16,939,366)	**₱18,488,748**	₱21,587,711
Entities under common control		Cash advances and premium collections on behalf of the Company	**–**	(2,822,960)	**520,818**	520,818
	8				**₱19,009,566**	₱22,108,529
Due to Related Parties						
Entities under common control		Cash advances and premium collections for the account of the Company	**₱2,491,000**	(₱30,860)	**₱4,944,957**	₱2,453,957
		Insurance	**1,079,866**	(2,279,871)	**2,645,684**	1,565,818
	12				**₱7,590,641**	₱4,019,775

Terms and Conditions of Transactions with Related Parties

Outstanding balances are unsecured, non-interest bearing, settled in cash and are payable upon demand. For the years ended December 31, 2021 and 2020, the Company has not recognized any provision for impairment losses on due from related parties.

Compensation of Key Management Personnel

The key management personnel of the Company pertain to the BOD of the Company and Senior Management Team of CHSI tasked to oversee the operations of the Company. In 2021 and 2020, directors' fees amounted to ₱3.0 million and ₱2.8 million, respectively (see Note 17).

20. Income Taxes

Details of current income tax expense are as follows:

	2021	2020
Final tax	**₱6,088,917**	₱7,264,599
MCIT	**4,232**	51,638
Effect of change in tax rate	**(12,909)**	–
	₱6,080,240	₱7,316,237

The details of net deferred income tax liability are as follows:

	2021	2020
Deferred Tax Assets		
Retirement liability	**₱1,362,859**	₱2,151,704
Allowance for impairment losses on advances to employees	**205,824**	246,988
	1,568,683	2,398,692
Deferred Tax Liabilities		
Revaluation surplus on property and equipment	**2,856,091**	–
Deficiency of amortization and interest expense over actual lease payment	**84,824**	27,996
	2,940,915	27,996
Net Deferred Tax Liabilities	**(₱1,372,232)**	₱2,370,696

Movements in net deferred income tax liability for the years ended December 31 are as follows:

	2021	2020
Balance at beginning of year	**₱2,370,696**	₱2,146,408
Charged (credited) to OCI	**(3,127,338)**	262,541
Charged to profit or loss	**(615,590)**	(38,253)
Balance at end of year	**(₱1,372,232)**	₱2,370,696

The details of the unrecognized deferred income tax assets are as follows:

	2021	2020
NOLCO	**₱22,588,472**	₱35,763,919
Excess MCIT over RCIT	**211,776**	220,453
	₱22,800,248	₱35,984,372

Deferred income tax assets on NOLCO and excess MCIT over RCIT have not been recognized since management does not expect that future taxable profits will be available against which the unused NOLCO and MCIT may be applied.

Details of the Company's NOLCO are as follows:

Year Incurred	Balance at Beginning of Year	Incurred	Expired	Balance at End of Year	Expiration Date
2018	₱58,367,132	₱–	₱58,367,132	₱–	2021
2019	29,942,170	–	–	29,942,170	2022
2020	30,903,760	–	–	30,903,760	2025
2021	–	29,507,959	–	29,507,959	2026
	₱119,213,062	₱29,507,959	₱58,367,132	₱90,353,889	

Under Republic Act No. 11494, *Bayanihan to Recover as One Act*, and Revenue Regulations No. 25-2020, the Company is allowed to carry over its net operating losses for the taxable years 2020 and 2021 for the next five (5) consecutive taxable years immediately following the year of such loss.

Details of the Company's excess of MCIT over RCIT are as follow:

Year Incurred	Balance at Beginning of Year	Incurred	Change in Income Tax Rate	Balance at End of Year	Expiration Date
2019	₱168,815	₱–	₱–	₱168,815	2022
2020	51,638	–	(12,909)	38,729	2023
2021	–	4,232	–	4,232	2024
	₱220,453	₱4,232	(₱12,909)	₱211,776	

The reconciliation between income tax computed at statutory rate and the income tax at effective tax rate is shown below:

	2021	2020
Income tax expense (benefit) at the statutory tax rate	**(₱15,894,595)**	₱16,477,617
Effect of change in tax rate	**6,364,651**	–
Tax effects:		
Nondeductible expenses	**16,237,520**	7,682,866
Expired NOLCO	**14,591,783**	9,096,849
Changes in unrecognized deferred income tax assets	**(13,171,215)**	(43,699)
Income subjected to other taxes, net	**(1,229,328)**	(25,907,567)
Income exempt from tax	**(202,986)**	(221,192)
Expired MCIT	**–**	269,616
	₱6,695,830	₱7,354,490

<u>Corporate Recovery and Tax Incentives for Enterprises (CREATE)</u>

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises ("CREATE") Act was enacted. Under the CREATE Act, domestic corporations will be subject to 25% or 20% income tax rate depending on the amount of total assets or the amount of taxable income and, minimum corporate income tax (MCIT) shall be computed at 1% of gross income for a period of three years effective
July 1, 2020.

Accordingly, the income tax rates used in preparing the financial statements as at and for the years ended December 31, 2021 and 2020 are 25% and 30%, respectively, for RCIT and 1% and 2%, respectively, for MCIT.

The current income tax in 2021 includes an adjustment recognized in the same year for the provision for current tax in 2020 in relation to change in income tax rate. Details are as follows:

	Current	Deferred	Total
Provision for income tax	₱4,232	₱198,683	₱202,915
Effect of change in tax rate in 2020	(12,909)	416,907	403,998
	(₱8,677)	₱615,590	₱606,913

21. **Leases**

The Company has existing lease agreements with related and non-related parties for the lease of commercial spaces with lease terms ranging from one to 10 years from September 15, 2011 to May 1, 2023. Certain leases have escalation clauses.

Details of lease-related expenses are as follows:

	Note	**2021**	2020
Amortization of ROU assets	9	**₱2,000,766**	₱4,485,165
Rent expense	17	**4,161,603**	4,327,677
Interest expense on lease liabilities	17	**337,835**	702,397
		₱6,500,204	₱9,515,239

Lease Liabilities

The movements in the lease liabilities are as follows:

	2021	2020
Balance at beginning of year	**₱5,616,489**	₱12,125,727
Payments	**(2,584,578)**	(5,504,851)
Interest expense	**337,835**	702,397
Cancellation	**–**	(1,706,784)
Balance at end of year	**3,369,746**	5,616,489
Current portion	**2,074,227**	2,246,743
Noncurrent portion	**₱1,295,519**	₱3,369,746

Maturity analysis of lease liabilities is as follows:

	2021		2020	
	Gross Amount	**Present Value**	Gross Amount	Present Value
Less than one year	**₱2,242,516**	**₱2,074,227**	₱2,584,578	₱2,246,743
Between one to five years	**1,354,215**	**1,295,519**	3,596,731	3,369,746
	₱3,596,731	**₱3,369,746**	₱6,181,309	₱5,616,489

ROU Assets

The movements in the ROU assets are as follows:

	Note	**2021**	2020
Cost			
Balance at beginning of year		**₱11,642,853**	₱16,765,541
Cancellation		**–**	(5,122,688)
Balance at end of year		**11,642,853**	11,642,853
Accumulated Amortization			
Balance at beginning of year		**6,553,311**	5,611,349
Amortization	9	**2,000,766**	4,485,165
Cancellation		**–**	(3,543,203)
Balance at end of year		**8,554,077**	6,553,311
		₱3,088,776	₱5,089,542

In 2020, certain leases were terminated. Related ROU assets and lease liabilities were retired, resulting to gain amounting to ₱127,299 (see Note 15).

Refundable lease deposits arising from these lease agreements amounted to ₱1.6 million and ₱1.9 million as at December 31, 2021 and 2020, respectively, are presented under “Other assets” account in the statements of financial position (see Note 10).

Future minimum annual lease payments with respect to non-cancellable leases are as follows:

	2021	2020
Not more than one year	**₱2,242,516**	₱2,584,578
More than one year but not beyond five years	**1,354,215**	3,596,731
	₱3,596,731	₱6,181,309

22. Insurance and Financial Risks and Capital Management

The Company’s activities expose it to a variety of insurance and financial risks. The BOD has overall responsibility for the Company’s risk management, which includes establishment and approval of risk strategies, policies and limits. The BOD monitors and evaluates the Company’s financial risk in line with the strategies, policies and limits set by the BOD. 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. The Company recognizes the importance of having efficient and effective risk management systems in place.

Pre-need Plan

The Company sells pension plans with fixed maturity benefit at plan maturity. In compliance with the rules and regulations, the Company has set up trust funds for pension plans. The Security Bank and Trust Company and Union Bank Trust Company act as the trustees for these funds and manage the contributions to the funds, ensure that the funds are properly invested in order to get the appropriate yield and disburse benefits as they become due and payable.

The Company also provides insurance benefits, which will pay for the plan installments to the Company upon the death or total disability of the planholder.

Insurance Risk

Insurance risk is the risk, other than financial risk, transferred from the holder of a contract to the issuer. The Company is exposed to insurance risk thru its contracts with its planholders that provide life coverage.

Insurance risk is generally managed at the Parent Company level. The Parent Company’s BOD meets regularly to approve policies on any commercial, regulatory and organizational requirements. These policies define the identification of risk, provide guidance on the assessment of the insurability of potential policyholders and ensure the alignment of underwriting strategy to the corporate goals, among others.

Financial Risk

The Company is exposed to a variety of financial risks arising from its financing, operating and investing activities. Management is responsible for the Company's financial risk management which includes establishment of risk strategies and policies and monitoring and evaluation of risk in line with the set policies and strategies. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Company's results and financial position.

The more important types of financial risk that the Company manages include market risk (including price risk and interest rate risk), credit risk and liquidity risk.

Market Risk. Market risk is the risk of loss of future earnings or future cash flows arising from changes in the price of a financial instrument. The value of the financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market changes.

(a) Price Risk

The Company is exposed to equity price risk because of investments in equity securities held by the Company and the trust funds. Equity price risk arises because of fluctuations in market prices of equity securities. The Company is not exposed to commodity price risk.

Listed equity securities are carried at quoted close price at the reporting date.

As at December 31, 2021 and 2020, the impact of 18.62% and 23.47%, respectively, increase/decrease in the close share price of listed equity securities, with all other variables held constant, would have been an increase/decrease of ₱63.6 million and ₱93.2 million in 2021 and 2020, respectively, in the Company's total comprehensive income and equity for the year. The Company's sensitivity analysis takes into account the historical performance of the stock market.

(b) Interest Rate Risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates, while fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. 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 IC, are in place and reviewed regularly to provide the general direction for the investment funds and to monitor the risk undertaken.

The following table shows the interest profile of interest-bearing financial assets as at December 31:

2021	**Interest Rate (%)**	**Within One Year**	**Over One Year**	**Total**
Cash in banks and cash equivalents	**0.10-4.45**	**₱7,277,997**	**₱–**	**₱7,277,997**
Trust funds:				
Cash and cash equivalents	**0.38-4.45**	**71,897,434**	**–**	**71,897,434**
Corporate bonds	**3.25-9.25**	**–**	**56,608,569**	**56,608,569**
Government securities	**3.25-9.25**	**–**	**715,646,563**	**715,646,563**
Investment securities:				
Government securities	**3.25-4.20**	**–**	**9,028,000**	**9,028,000**
Corporate bonds	**3.25-4.20**	**–**	**4,668,302**	**4,668,302**
Advances to employees	**10.00**	**5,518**	**–**	**5,518**
		₱79,180,949	**₱785,951,434**	**₱865,132,383**

2020	Interest Rate (%)	Within One Year	Over One Year	Total
Cash in banks and cash equivalents	0.10-4.45	₱15,039,605	₱–	₱15,039,605
Trust funds:				
Cash and cash equivalents	0.38-4.45	54,215,762	–	54,215,762
Corporate bonds	3.25-9.25	–	613,240,546	613,240,546
Government securities	3.25-9.25	–	180,368,743	180,368,743
Investment securities:				
Government securities	3.25-4.20	–	14,527,187	14,527,187
Corporate bonds	3.25-4.20	–	5,420,171	5,420,171
Advances to employees	10.00	85,606	–	85,606
		₱69,340,973	₱813,556,647	₱882,897,620

The Company's interest rate risk arises from investments in corporate bonds and government securities amounting to ₱772.3 million and ₱793.6 million in 2021 and 2020, respectively.

Based on the sensitivity analysis performed by the Company, after taking into consideration the reasonable possible shift in interest rates of the debt securities, an increase/decrease of 100 basis points, with all other variables held constant, would result on an increase/decrease by ₱6.6 million and ₱6.3 million in 2021 and 2020, respectively, in the Company's total comprehensive income and equity for the year. The Company's sensitivity analysis takes into account the historical volatilities of market interest rates.

(c) Credit Risk

Credit risk refers to the risk when a counterparty defaults on its contractual obligations resulting in financial loss to the Company. Credit risk arises from cash and cash equivalents (excluding cash on hand), government and corporate bonds, receivables and refundable lease deposits (under prepayments and other assets).

The Company's financial assets are actively monitored to avoid significant concentrations of credit risk.

The following table provides information regarding credit risk exposure of the Company as at December 31:

	2021	2020
Cash in banks and cash equivalents	**₱7,277,997**	₱15,039,605
Trust funds:		
Cash and cash equivalents	**71,897,434**	54,215,762
Receivables	**9,245,158**	6,581,049
Corporate bonds	**56,608,569**	613,240,546
Government securities	**715,646,563**	180,368,743
Investment securities:		
Government securities	**9,028,000**	14,527,187
Corporate bonds	**4,668,302**	5,420,171
Receivables	**22,715,763**	24,699,358
Refundable lease deposits	**1,601,886**	1,947,475
	₱898,689,672	₱916,039,896

All of the foregoing financial assets are classified as neither past due nor impaired except for impaired advances to employees (included under receivables) amounting to ₱823,294 as at December 31, 2021 and 2020.

While cash in banks are subject to impairment, the resulting impairment loss is not significant primarily because the cash in banks are with a reputable counterparty that possessed a good credit rating.

Government securities and corporate bonds, including the related accrued interest and dividends receivable, are assumed to have low credit risk because these are exposures to the Philippine National Government and private corporations with "investment grade" credit ratings.

For receivables from related parties, the Company's main counterparty is CHSI, its ultimate parent company, who has the ability to pay based on available assets and has no history of defaults. For advances to employees, the Company considered the employment status of the employee. These are not considered to be impaired since continuous collections are made through monthly salary deductions, except for advances made to resigned employees.

(d) Liquidity Risk

Liquidity risk is the risk that the Company will be 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.

The tables below summarize the maturity profile of the financial liabilities of the Company as at December 31.

	2021			
	Up to One Year*	**Over One up to Three Years**	**Over Three Years**	**Total**
Accounts payable	**₱18,705,398**	**₱–**	**₱–**	**₱18,705,398**
Lease liabilities	**2,074,227**	**1,295,519**	**–**	**3,369,746**
Trust fund liabilities	**10,903,759**	**–**	**–**	**10,903,759**
Agents' bond reserve and provident fund contributions	**16,534,732**	**–**	**–**	**16,534,732**
	₱48,218,116	**₱1,295,519**	**₱–**	**₱49,513,635**

**Up to one year or all commitments which are either due within the timeframe or are payable on demand.*

	2020			
	Up to One Year*	Over One up to Three Years	Over Three Years	Total
Accounts payable	₱9,601,920	₱–	₱–	₱9,601,920
Lease liabilities	2,246,743	3,369,746	–	5,616,489
Trust fund liabilities	3,329,040	–	–	3,329,040
Agents' bond reserve and provident fund contributions	15,996,724	–	–	15,996,724
	₱31,174,427	₱3,369,746	₱–	₱34,544,173

**Up to one year or all commitments which are either due within the timeframe or are payable on demand*

Trust fund liabilities are offset against trust fund assets to arrive at the net asset value of trust funds (see Note 5).

Other liabilities only include agents' bond reserve and agents' provident fund contribution.

In compliance with the requirements of the IC, the Company has set up a trust fund to meet its maturing benefits payable, which includes a liquidity reserve fund (see Note 5).

Fair Value of Financial Assets and Liabilities

The table below summarizes the Company's financial assets presented at fair value in the statements of financial position:

	2021	2020
Trust funds:		
Government securities	**₱715,646,563**	₱180,368,743
Listed equity securities	**332,854,671**	380,523,392
Corporate bonds	**56,608,569**	₱613,240,546
Investment securities:		
Listed equity securities (including insurance premium fund)	**17,640,626**	16,475,163
Government securities	**9,028,000**	14,527,187
Corporate bonds	**4,668,302**	5,420,171
	₱1,136,446,731	₱1,210,555,202

The investments in listed equity securities and corporate bonds are classified under Level 1 category and investments in government securities and commercial papers are classified under Level 2 category.

In 2021 and 2020, there were no transfers among Level 1, Level 2 and Level 3 fair value measurements.

The carrying amounts of other financial assets and liabilities generally approximate their fair values as the effect of discounting is immaterial.

Classification of Assets and Liabilities

The Company's current and noncurrent classification of assets and liabilities are as follows:

		2021	
	Current	**Noncurrent**	**Total**
Assets			
Cash and cash equivalents	**₱7,393,597**	**₱–**	**₱7,393,597**
Investment in trust funds	**70,238,833**	**1,105,109,803**	**1,175,348,636**
Insurance premium fund	**–**	**8,979,096**	**8,979,096**
Investment securities	**–**	**22,357,831**	**22,357,831**
Receivables	**21,892,469**	**–**	**21,892,469**
Property and equipment	**–**	**26,151,048**	**26,151,048**
Right-of-use assets	**–**	**3,088,776**	**3,088,776**
Other assets	**1,049,060**	**1,601,886**	**2,650,946**
Total Assets	**₱100,573,959**	**₱1,167,288,440**	**₱1,267,862,399**
Liabilities			
Plan benefits payable	**₱168,040,520**	**₱–**	**₱168,040,520**
Accounts payable	**18,705,398**	**–**	**18,705,398**
Lease liabilities	**2,074,227**	**1,295,519**	**3,369,746**
Pre-need reserves	**177,734,146**	**785,849,222**	**963,583,368**
Insurance premium reserves	**338,518**	**8,550,480**	**8,888,998**
Other reserves	**109,373**	**6,698,814**	**6,808,187**
Net deferred tax liabilities	**–**	**1,372,232**	**1,372,232**
Other liabilities	**20,705,307**	**20,613,937**	**41,319,244**
Total Liabilities	**₱387,707,489**	**₱824,380,204**	**₱1,212,087,693**

		2020	
	Current	Noncurrent	Total
Assets			
Cash and cash equivalents	₱15,207,705	₱–	₱15,207,705
Investment in trust funds	57,467,771	1,174,132,681	1,231,600,452
Insurance premium fund	–	8,979,096	8,979,096
Investment securities	–	27,443,425	27,443,425
Receivables	23,876,064	–	23,876,064
Property and equipment	–	15,848,699	15,848,699
Right-of-use assets	–	5,089,542	5,089,542
Net deferred tax assets	–	2,370,696	2,370,696
Other assets	1,274,917	1,947,475	3,222,392
Total Assets	₱97,826,457	₱1,235,811,614	₱1,333,638,071
Liabilities			
Plan benefits payable	₱124,493,023	₱–	₱124,493,023
Accounts payable	9,601,920	–	9,601,920
Lease liabilities	2,246,743	3,369,746	5,616,489
Pre-need reserves	177,734,146	838,796,618	1,016,530,764
Insurance premium reserves	338,518	8,416,493	8,755,011
Other reserves	109,373	6,553,015	6,662,388
Other liabilities	40,786,718	7,174,639	47,961,357
Total Liabilities	₱355,310,441	₱864,310,511	₱1,219,620,952

Capital Management

The primary objective of the Company's capital management is to ensure its ability to continue as a going concern to support its business, maximize shareholder value and meet regulatory capitalization requirements.

The BOD has the overall responsibility for monitoring the Company's capital structure and making the necessary adjustments to address the risks and adapt to changes in economic conditions and regulatory requirements.

The components of capital as at December 31 are as follow:

	2021	2020
Capital stock	**₱150,000,000**	₱150,000,000
Contingency surplus	**72,540,000**	67,300,000
Other comprehensive income	**(9,667,258)**	10,329,779
Deficit	**(157,098,036)**	(113,612,660)
	₱55,774,706	₱114,017,119

In accordance with Section 9 of the Pre-Need Code, existing pre-need companies should comply with the following minimum unimpaired paid-up capital:

(a) ₱100,000,000 for companies selling at least three types of plan;
(b) ₱75,000,000 for companies selling two types of plan; and
(c) ₱50,000,000 for companies selling a single type of plan.

Unimpaired paid-up capital pertains to total admitted assets less liabilities.

Total non-admitted assets which pertain to receivable from related parties amounted to ₱19.0 million and ₱22.1 million as at December 31, 2021 and 2020, respectively (see Note 19).

As at December 31, 2021, the Company has not complied with the capital requirements set by the IC.

The Company's estimated unimpaired paid-up capital amounted to ₱36.8 million which is below the ₱50.0 million requirement for pre-need companies selling a single type of plan. As at report date, the management is in the process of formalizing its plans to cover the deficiency.

In 2020, the Company has complied with the capital requirements of the IC. Paid-up capital amounted to ₱91.9 million as at December 31, 2020.

23. **Supplementary Information Required under Revenue Regulations No. 15-2010**

The Company reported and/or paid the following types of taxes in 2021:

Output VAT

Output VAT declared for the year ended December 31, 2021 and the revenue subject to output VAT consist of:

	Amount	
	Gross Revenue	Output VAT
Subject to 12% VAT		
Premiums (net of trust fund contribution) and other revenue	₱49,485,429	₱5,938,251

Outstanding output VAT as at December 31, 2021 amounted to ₱362,189.

Premium income is based on actual collections, net of contributions for tax purposes, while revenues presented in the statement of total comprehensive income are gross of trust fund contribution and based on the policies discussed in Note 5.

Input VAT

The movements in the input VAT paid for by the Company for the year ended December 31, 2021 are shown below:

Current year's domestic purchases/payments	₱996,241
Input VAT applied against output VAT	(996,241)
Balance at end of year	₱–

Documentary Stamp Taxes

Documentary stamp taxes on pension plans paid and accrued for the year ended December 31, 2021 amounted to ₱242,809 and ₱17,014, respectively.

Documentary stamp taxes are lodged under documentary stamp taxes and registration fees in the statements of comprehensive income.

Other Local and National Taxes

The Company's local and national taxes for the year ended December 31, 2021 consists of:

Tax deficiencies	₱501,601
Business and other permits	302,825
Real property tax	129,025
Others	47,463
	₱980,914

The above local and national taxes are classified as "Taxes and licenses" under "General and administrative expenses" account in the statements of comprehensive income.

Withholding Taxes

Withholding taxes paid and accrued and/or withheld by the Company for the year ended December 31, 2021 consists of:

	Paid	Accrued	Total
Expanded withholding tax	₱3,086,506	₱188,087	₱3,274,593
Withholding tax on compensation	3,071,853	146,958	3,218,811
	₱6,158,359	₱335,045	₱6,493,404

Tax Assessment and Tax Cases

There are no outstanding tax assessments and cases under investigation, litigation and/or for prosecution in courts or bodies outside of the Bureau of Internal Revenue as at December 31, 2021.

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

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REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE
BUREAU OF INTERNAL REVENUE

The Stockholders and the Board of Directors
Caritas Financial Plans, Inc.
3rd Floor, Katipunan Building
95 E. Rodriguez Sr. Blvd.
Quezon City

We have audited the accompanying financial statements of Caritas Financial Plans, Inc. (the Company), a wholly owned subsidiary of Caritas Health Shield, Inc., as at and for the years ended December 31, 2021 and 2020, on which we have rendered our report dated May 25, 2022.

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

REYES TACANDONG & CO.

CAROLINA P. ANGELES
Partner
CPA Certificate No. 86981
Tax Identification No. 205-067-976-000
BOA Accreditation No. 4782; Valid until April 13, 2024
IC Accreditation No. 86981-IC Group A
Issued March 5, 2020
Valid for Financial Periods 2019 to 2023
SEC Accreditation No. 86981-SEC Group A
Issued March 24, 2020
Valid for Financial Periods 2019 to 2023
BIR Accreditation No. 08-005144-007-2019
Valid until October 16, 2022
PTR No. 8851708
Issued January 3, 2022, Makati City

May 25, 2022
Makati City, Metro Manila