**COPY FOR THE**

**BUREAU OF INTERNAL REVENUE**

Isla Lipana & Co.

**Independent Auditor's Report**

To the Board of Trustees of
**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A nonstock, not-for-profit Fraternal Beneficiary Society)
KCFAPI Center
Gen. Luna corner Sta. Potencianca Street
Intramuros, Manila

## Report on the Audits of the Financial Statements

### *Our Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Knights of Columbus Fraternal Association of the Philippines, Inc. (the "Company") as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

*What we have audited*

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2022 and 2021;
- the statements of income for the years ended December 31, 2022 and 2021;
- the statements of comprehensive income for the years ended December 31, 2022 and 2021;
- the statements of changes in net worth for the years ended December 31, 2022 and 2021;
- the statements of cash flows for the years ended December 31, 2022 and 2021;
- the notes to the financial statements, which include a summary of significant accounting policies.

### *Basis for Opinion*

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

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

*Independence*

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.



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***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

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

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

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

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

Isla Lipana & Co.



**Report on the Bureau of Internal Revenue Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information under Bureau of Internal Revenue (BIR) Revenue Regulations Nos. 15-2010 and 34-2020 in Note 28 to the financial statements is presented for the purposes of filing with the BIR and are not required parts of the basic financial statements. Such information is the responsibility of management of the Company. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Isla Lipana & Co.**

Imelda Dela Vega-Mangundaya
Partner
CPA Cert. No. 0090670
PTR No. 0024586, issued on January 9, 2023, Makati City
SEC A.N. (individual) as general auditors 90670-SEC, Category A; valid to audit 2019 to 2023 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 152-015-124
BIR A.N. 08-000745-047-2021, issued on November 23, 2021; effective until November 22, 2024
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
April 27, 2023

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

To the Board of Trustees and Members of
**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A nonstock, not-for-profit Fraternal Beneficiary Society)
KCFAPI Center
Gen. Luna corner Sta. Potencianca Street
Intramuros, Manila

None of the partners of the firm has any financial interest in Knights of Columbus Fraternal Association of the Philippines, Inc. or any family relationship with its president, managers or principal members.

The supplementary information on taxes and licenses is presented in Note 28 to the financial statements.

**Isla Lipana & Co.**

Imelda Dela Vega-Mangundaya
Partner
CPA Cert. No. 0090670
PTR No. 0024586, issued on January 9, 2023, Makati City
SEC A.N. (individual) as general auditors 90670-SEC, Category A; valid to audit 2019 to 2023 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
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BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
April 27, 2023

**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A Nonstock, Not-for-Profit Fraternal Beneficiary Society)

**Statements of Financial Position**
As at December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **Assets** | | | |
| Cash and cash equivalents | 2 | 468,380,404 | 339,128,465 |
| Short-term investments | 2 | 173,936,567 | 5,102,091 |
| Insurance receivables | 3 | 21,117,521 | 20,281,330 |
| Financial assets at fair value and amortized cost | 4 | 5,615,677,491 | 5,748,730,309 |
| Investment in subsidiaries | 5 | 502,077,694 | 458,327,694 |
| Property and equipment, net | 6 | 346,995,861 | 346,578,366 |
| Pension asset, net | 19 | 15,509,871 | - |
| Other assets | | 4,390,313 | 3,541,212 |
| **Total assets** | | 7,148,085,722 | 6,921,689,467 |
| **LIABILITIES AND NET WORTH** | | | |
| **Liabilities** | | | |
| Insurance contract liabilities, net | 7, 8 | 5,337,395,391 | 5,122,707,208 |
| Other investment contract liabilities | 9 | 236,656,571 | 246,826,319 |
| Other insurance contract liabilities | 10 | 3,934,580 | 3,649,697 |
| Members' participation payable | 11 | 122,931,606 | 127,940,142 |
| Accounts payable and other liabilities | 12 | 158,537,558 | 169,387,136 |
| Pension liability, net | 19 | - | 1,474,584 |
| Total liabilities | | 5,859,455,706 | 5,671,985,086 |
| **Net worth** | | | |
| Contribution from founding members | | 32,000 | 32,000 |
| Other reserves | 6, 8 | 370,185,139 | 349,783,311 |
| Surplus | | | |
| Unappropriated | | 918,412,877 | 894,889,070 |
| Appropriated | | - | 5,000,000 |
| Total net worth | | 1,288,630,016 | 1,249,704,381 |
| **Total liabilities and net worth** | | 7,148,085,722 | 6,921,689,467 |

(The notes on pages 1 to 57 are integral part of these financial statements)

**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A Nonstock, Not-for-Profit Fraternal Beneficiary Society)

**Statements of Income**
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **Revenue** | | | |
| Gross earned contributions on insurance contracts | | 799,147,000 | 768,016,384 |
| Reinsurers' share of gross earned contributions on insurance contracts | | (771,182) | (882,970) |
| Net earned contributions on insurance contracts | | 798,375,818 | 767,133,414 |
| Interest income | 13 | 339,722,411 | 339,010,361 |
| Dividend income | 4,5 | 38,692,010 | 34,924,382 |
| Fair value (loss) gain on financial assets at fair value through profit or loss | 4 | (59,790,752) | 10,474,914 |
| Realized gain on sale of financial assets at fair value through profit or loss | 4 | 3,163,390 | 5,730,151 |
| Foreign exchange gain, net | 25.4.4 | 25,528,577 | 11,828,886 |
| Other income, net | | 924,328 | 921,695 |
| Total investment income | | 348,239,964 | 402,890,389 |
| **Total revenue** | | 1,146,615,782 | 1,170,023,803 |
| **Benefits, claims, and operating expenses** | | | |
| Gross benefits and claims incurred on insurance contracts | 15 | 573,218,448 | 678,184,865 |
| Gross change in legal policy reserves | | 246,653,893 | 202,619,722 |
| Reinsurers' share of gross change in legal policy reserves | 7 | (500,557) | (645,101) |
| Net insurance benefits and claims | 7,15 | 819,371,784 | 880,159,486 |
| General and administrative expenses | 16 | 133,385,393 | 107,673,473 |
| Commissions and other direct expenses | 17 | 80,816,244 | 76,282,597 |
| Interest expense | 18 | 25,769,941 | 21,876,732 |
| Operating expenses | | 239,971,578 | 205,832,802 |
| **Total benefits, claims and operating expenses** | | 1,059,343,362 | 1,085,992,288 |
| Excess of revenue before final tax | | 87,272,420 | 84,031,515 |
| Provision for final tax | 21 | (53,551,358) | (53,407,393) |
| Excess of revenue before participation of benefit certificate holders | | 33,721,062 | 30,624,122 |
| Participation of benefit certificate holders | 11 | (16,000,000) | (13,000,000) |
| **Excess of revenue over expenses** | | 17,721,062 | 17,624,122 |

(The notes on pages 1 to 57 are integral part of these financial statements)

**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A Nonstock, Not-for-Profit Fraternal Beneficiary Society)

**Statements of Comprehensive Income**
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Note | 2022 | 2021 |
|---|---|---|---|
| **Excess of revenue over expenses** | | 17,721,062 | 17,624,122 |
| | | | |
| **Other comprehensive income** | | | |
| Items that will not be reclassified to profit or loss | | | |
| Actuarial gain on retirement plan | 19 | 21,204,573 | 20,219,856 |
| **Total comprehensive income for the year** | | 38,925,635 | 37,843,978 |

(The notes on pages 1 to 57 are integral part of these financial statements)

**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A Nonstock, Not-for-Profit Fraternal Beneficiary Society)

**Statements of Changes in Net Worth**
For the years ended December 31, 2022 amd 2021
(All amounts in Philippine Peso)

| | | Other reserves | | | | | |
|---|---|---|---|---|---|---|---|
| | Contribution from founding members | Revaluation increment on property and equipment (Note 6) | Reserve for fluctuation on financial assets at FVOCI (Note 4) | Reserve for retirement plan (Note 18) | Unappropriated surplus | Appropriated surplus | Total net worth |
| **Balances as at January 1, 2021** | 32,000 | 317,215,970 | (831,699) | 13,150,230 | 882,293,902 | – | 1,211,860,403 |
| **Other comprehensive income** | | | | | | | |
| Excess of revenue over expenses | – | – | – | – | 17,624,122 | – | 17,624,122 |
| Other comprehensive income | – | – | – | 20,219,856 | – | – | 20,219,856 |
| Total comprehensive income for the year | – | – | – | 20,219,856 | 17,624,122 | – | 37,843,978 |
| Transfer to surplus | – | – | 831,699 | – | (831,699) | – | – |
| Transfer from property revaluation increment | – | (802,745) | – | – | 802,745 | – | – |
| Appropriation of surplus | – | – | – | – | (5,000,000) | 5,000,000 | – |
| **Balances as at December 31, 2021** | 32,000 | 316,413,225 | – | 33,370,086 | 894,889,070 | 5,000,000 | 1,249,704,381 |
| **Other comprehensive income** | | | | | | | |
| Excess of revenue over expenses | – | – | – | – | 17,721,062 | – | 17,721,062 |
| Other comprehensive income | – | – | – | 21,204,573 | – | – | 21,204,573 |
| Total comprehensive income for the year | – | – | – | 21,204,573 | 17,721,062 | – | 38,925,635 |
| Transfer from property revaluation increment | – | (802,745) | – | – | 802,745 | – | – |
| Reversal of appropriation of surplus | – | – | – | – | 5,000,000 | (5,000,000) | – |
| **Balances as at December 31, 2022** | 32,000 | 315,610,480 | – | 54,574,659 | 918,412,877 | – | 1,288,630,016 |

(The notes on pages 1 to 57 are integral part of these financial statements)

**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A Nonstock, Not-for-Profit Fraternal beneficiary Society)

**Statements of Cash Flows**
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Excess of revenue over expenses before final tax | | 87,272,420 | 84,031,515 |
| Adjustments for: | | | |
| Interest income | 13 | (339,722,411) | (339,010,361) |
| Increase in legal policy reserves | | 246,153,336 | 201,974,621 |
| Dividend income | 4,5 | (38,692,010) | (34,924,382) |
| Interest expense | 18 | 25,769,941 | 21,876,732 |
| Fair value loss (gain) on financial assets at fair through profit or loss | 4 | 59,790,752 | (10,474,914) |
| Unrealized foreign exchange loss, net | 25.4.4 | 17,279,354 | 10,888,295 |
| Depreciation | 6 | 6,807,743 | 4,796,365 |
| Current service costs on retirement plan | 19 | 7,217,632 | 8,322,824 |
| (Reversal of) provisions for credit losses | 4 | (6,293,635) | 3,000,001 |
| Amortization of premium | 4 | 2,505,147 | 1,946,522 |
| Realized gain on sale of financial assets at FVTPL | 4 | (3,163,390) | (5,730,151) |
| Gain on sale of property and equipment and other income | 6 | (135,000) | (132,500) |
| Operating income before working capital changes | | 64,789,879 | (53,435,433) |
| (Increase) decrease in: | | | |
| Insurance receivables | | (836,191) | (1,562,913) |
| Short-term investments | | (168,834,476) | (5,102,091) |
| Loans and receivables | | 18,741,683 | 3,425,173 |
| Other assets | | (849,101) | 5,874,707 |
| Increase (decrease) in: | | | |
| Claims payable | | (31,465,153) | 29,512,908 |
| Other investment contract liabilities | | (10,169,748) | (13,765,078) |
| Other insurance contract liabilities | | 284,883 | (936,316) |
| Members' participation payable | | (21,008,536) | (34,117,660) |
| Accounts payable and other liabilities | | (14,822,510) | 37,040,978 |
| Net cash used in operations | | (164,169,270) | (33,065,725) |
| Interest paid | | (24,791,190) | (22,840,643) |
| Final tax paid | | (53,551,358) | (53,407,393) |
| Net cash used in operating activities | | (242,511,818) | (109,313,761) |
| **Cash flows from investing activities** | | | |
| Interest received | | 342,692,733 | 338,656,617 |
| Dividends received | | 38,510,734 | 38,140,977 |
| Proceeds from maturities/disposals of: | | | |
| Debt securities at amortized cost | 4 | 1,536,591,142 | 947,542,801 |
| Financial assets at FVTPL | 4 | 282,602,390 | 464,449,151 |
| Property and equipment | 6 | 972,089 | 132,500 |
| Acquisitions of: | | | |
| Investment in a subsidiary | 5 | (43,750,000) | - |
| Debt securities at amortized cost | 4 | (1,414,712,385) | (1,164,188,635) |
| Financial assets at FVTPL | 4 | (363,080,619) | (440,516,381) |
| Property and equipment | 6 | (8,062,327) | (3,119,172) |
| Net cash flows provided by investing activities | | 371,763,757 | 181,097,858 |
| Net increase in cash and cash equivalents | | 129,251,939 | 71,784,097 |
| Cash and cash equivalents at January 1 | | 339,128,465 | 267,344,368 |
| **Cash and cash equivalents at December 31** | 2 | 468,380,404 | 339,128,465 |

(The notes on pages 1 to 57 are integral part of these financial statements)

**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A Nonstock, Not-for-Profit Fraternal beneficiary Society)

Notes to the Financial Statements
As at and for the years ended December 31, 2022 and 2021
(All amounts are shown in Philippine Peso unless otherwise stated)

## Note 1 - Corporate information

Knights of Columbus Fraternal Association of the Philippines, Inc. (the “Company”) was incorporated in the Philippines on August 1, 1958 as a nonstock, not-for-profit fraternal beneficiary society. It has been granted perpetual existence after its latest corporate term extension last July 16, 2004 upon effectivity of the Republic Act No. 11232 otherwise known as the Revised Corporation Code last February 28, 2019. The Company is a mutual benefit association which provides optimum fraternal benefits program for its members and their immediate families.

The registered office address of the Company is KCFAPI Center, Gen. Luna corner Sta. Potenciana Streets, Intramuros, Manila.

The accompanying Company’s financial statements were authorized for issue by the Board of Trustees on April 26, 2023. There are no material events that occurred from April 26, 2023 to April 27, 2023.

## Note 2 - Cash and cash equivalents; Short-term investments

*Cash and cash equivalents*

The account as at December 31 consists of:

| | 2022 | 2021 |
|---|---|---|
| Cash on hand | 607,928 | 70,633 |
| Cash in banks | 41,126,226 | 58,542,687 |
| Cash equivalents | 426,646,250 | 280,515,145 |
| | 468,380,404 | 339,128,465 |

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents pertain to short-term time deposits that have average maturities up to three (3) months from acquisition and earn annual interest rates that ranged from 4% to 5% in 2022 (2021 - 0.10% to 1.13%).

For the year ended December 31, 2022, interest income earned from cash in banks and short-term deposit amounted to P4,836,756 and P686,596, respectively (2021 - P675,494 and P3,447, respectively) (Note 13). Accrued interest from cash and cash equivalents and short-term investments amounts to P1,433,381 and P257,667 (2021 - P69,591 and nil), respectively as at December 31, 2022 (Note 4).

*Short-term investments*

Short-term investments consist of time deposits maturing within one (1) year after reporting period and earn annual interest rates that ranged from 4% to 5% in 2022 (2021 - 0.10% to 1.13%).

## Note 3 - Insurance receivables

The account as at December 31 consists of:

| | 2022 | 2021 |
|---|---|---|
| Premiums due and uncollected | 21,092,580 | 20,281,330 |
| Due from reinsurers | 24,941 | - |
| | 21,117,521 | 20,281,330 |

Premiums due and uncollected represent outstanding insurance contributions on in-force benefit certificates, which are collectible within the Company's grace period of 30 days or one (1) month.

Due from reinsurers pertains to amounts recoverable from the reinsurers in respect of claims already paid by the Company which are due and demandable.

## Note 4 - Financial assets at fair value and amortized cost

The Company's financial assets as at December 31 are summarized by measurement categories as follows:

| | 2022 | 2021 |
|---|---|---|
| At FVTPL | 497,938,402 | 474,086,864 |
| At FVOCI (club shares) | 167,000 | 167,000 |
| At amortized cost | 5,117,572,089 | 5,274,476,445 |
| | 5,615,677,491 | 5,748,730,309 |

The assets included in each of the categories above are detailed below as at December 31:

*Financial assets at FVTPL*

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | At fair value | At cost | At fair value | At cost |
| Preferred shares | 424,628,198 | 451,410,450 | 474,086,864 | 461,340,450 |
| Common shares | 73,310,204 | 93,704,690 | - | - |
| | 497,938,402 | 545,115,140 | 474,086,864 | 461,340,450 |

The Company's financial assets at FVTPL pertain to investments in listed equity securities.

Dividend income arising from financial assets at FVTPL in 2022 amounted to P28,877,094 (2021 - P25,692,862).

Fair value loss on financial assets at FVTPL in 2022 amounted to P59,790,752 (2021 - P10,474,914 gain).

Realized gain on sale of financial assets at FVTPL in 2022 amounted to P3,163,390 (2021 - P5,730,151).

*Financial assets at amortized cost*

| | Note | 2022 | 2021 |
|---|---|---|---|
| Loans and receivables | | 743,702,924 | 760,917,965 |
| Debt securities | | 4,383,065,931 | 4,524,733,193 |
| Accrued income | | | |
| Interests | | | |
| Financial assets at amortized cost | | 33,489,593 | 38,081,372 |
| Cash and cash equivalents | 2 | 1,433,381 | 69,591 |
| Short-term investments | 2 | 257,667 | - |
| Dividends | | 3,478,932 | 3,297,656 |
| | | 5,165,428,428 | 5,327,099,777 |
| Unearned interest on benefit certificate loans | | (27,926,557) | (26,399,915) |
| Allowance for credit losses | | (19,929,782) | (26,223,417) |
| | | 5,117,572,089 | 5,274,476,445 |

The composition of the account as to currency as at December 31 follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Philippine Peso | | 4,825,627,809 | 5,004,514,065 |
| United States Dollar | 25.4.4 | 291,944,280 | 269,962,380 |
| | | 5,117,572,089 | 5,274,476,445 |

Interest income (net of amortization of premium) arising from financial assets at amortized cost amounted to P273,796,237 in 2022 (2021 - P279,877,665) (Note 13).

*a) Loans and receivables as at December 31 follow:*

| | Note | 2022 | 2021 |
|---|---|---|---|
| Benefit certificate loans | | 615,345,307 | 586,487,210 |
| Long-term investments | | 87,650,284 | 130,173,559 |
| Due from related parties | 23 | 2,036,605 | 1,810,177 |
| Mortgage and collateral loans | | 1,749,697 | 3,814,783 |
| Other receivables | | 36,921,031 | 38,632,236 |
| | | 743,702,924 | 760,917,965 |
| Unearned interest on benefit certificate loans | | (27,926,557) | (26,399,915) |
| Allowance for credit losses for other receivables | | (18,373,111) | (17,552,272) |
| | | 697,403,256 | 716,965,778 |

Interest income arising from loans and receivables amounted to P60,402,822 in 2022 (2021 - P58,453,755) (Note 13).

Benefit certificate loans pertain to loans issued to benefit certificate holders through cash loans and automatic contribution loans. The loan is issued to the certificate holders, in which the cash surrender value of the benefit certificate serves as collateral. Interest earned from these loans is at 10% to 11% and 8% per annum on Peso and US Dollar denominated loans, respectively. Unearned interest from benefit certificate loans represents the unearned portion of interest charges from the benefit certificate loans.

Long-term deposits pertain to time deposits in banks with maturities of more than 360 days or one (1) year, which earn interest ranging from 2.35% to 4.0% in 2022 and 2021.

Other receivables consist of receivables from employees, sales force, subsidiaries, and the order of the Knights of Columbus. Other receivables also include account balances from closed banks with full provision of allowance for impairment loss and deposits in-transits from pending inter-bank transfer on collections received from the Service Offices. Loans to fraternal counselors and employees are interest-bearing at 6.0% in 2022 and 2021, and are due and demandable.

Other receivables, mortgage and collateral loans, and due from related parties accounts with nominal value of P18,373,111 and P17,552,272 were fully provided with allowance for ECL as at December 31, 2022 and 2021, respectively.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to other receivables as at December 31 follow (in thousands of PHP):

| **2022** | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross carrying amount January 1 | 20,222 | 6,483 | 17,552 | 44,257 |
| New assets originated or purchased | 16,470 | – | – | 16,470 |
| Assets derecognized or repaid | (20,026) | – | – | (20,026) |
| Transfers to Stage 1 | – | – | – | – |
| Transfers from Stage 2 | – | (821) | – | (821) |
| Transfers to Stage 3 | – | – | 821 | 821 |
| | 16,666 | 5,662 | 18,373 | 40,701 |
| Allowance for credit losses At January 1 | – | – | 17,552 | 17,552 |
| Provision for credit losses | – | – | 821 | 821 |
| At December 31 | – | – | 18,373 | 18,373 |

| **2021** | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Gross carrying amount January 1 | 15,386 | 6,483 | 17,552 | 39,421 |
| New assets originated or purchased | 4,836 | – | – | 4,836 |
| Assets derecognized or repaid | – | – | – | – |
| Transfers to Stage 1 | – | – | – | – |
| Transfers to Stage 2 | – | – | – | – |
| Transfers to Stage 3 | – | – | – | – |
| | 20,222 | 6,483 | 17,552 | 44,257 |
| Allowance for credit losses as At January 1 | – | – | 17,552 | 17,552 |
| Provision for credit losses | – | – | – | – |
| At December 31 | – | – | 17,552 | 17,552 |

*b) Debt securities at amortized cost as at December 31 follow:*

| | 2022 | 2021 |
|---|---|---|
| Government bonds | 1,010,376,402 | 1,256,192,694 |
| Corporate bonds | 2,645,430,000 | 2,601,420,000 |
| Retail treasury bonds | 476,700,000 | 431,700,000 |
| ROP bonds | 200,559,529 | 185,420,500 |
| Government securities with IC | 50,000,000 | 50,000,000 |
| | 4,383,065,931 | 4,524,733,194 |
| Allowance for credit losses | (1,556,671) | (8,671,145) |
| | 4,381,509,260 | 4,516,062,049 |

Interest income (net of amortization of premium) arising from debt securities at amortized cost amounted to P273,796,237 in 2022 (2021 - P279,877,665) (Note 13). Accrued interest amounts to P33,489,593 as at December 31, 2022 (2021 - P38,081,372).

Government bonds consist of fixed income treasury bonds and treasury bills maturing within one (1) up to 25 years from date of acquisition which bear fixed interest rates in 2022 ranging from 2.63% to 18.25% (2021 - 0.98% to 18.25%) per annum. Corporate bonds, maturing within one (1) up to 12 years from date of acquisition, bear fixed interest rates ranging from 2.46% to 8.00% per annum in 2022 and 2021.

Retail treasury bonds are PHP-denominated bonds maturing within three (3) up to 10 years from date of acquisition, and bears fixed interest rates of 2.63% to 6.25% per annum in 2022 and 2021.

Republic of the Philippines (ROP) bonds are US dollar-denominated bonds maturing within 12 up to 24 years from date of acquisition, and bears fixed interest rates of 5.50% to 10.63% per annum in 2022 and 2021.

As at December 31, 2022 and 2021, government securities with face amount of P50,000,000 are deposited with the IC as security for benefit certificate holders and creditors of the Company in accordance with Chapter V Section 378 to 385 of the Insurance Code. The amount of such fund is determined by and deposited with IC and its purpose is to pay valid claims against insolvent insurance companies.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Stage 1 debt securities at amortized cost follow (in thousands of PHP):

| 2022 | Government bonds | Corporate bonds | Retail treasury bonds | ROP bonds | Government securities with IC | Total |
|---|---|---|---|---|---|---|
| Gross carrying amount | | | | | | |
| At January 1 | 1,256,193 | 2,601,420 | 431,700 | 185,420 | 50,000 | 4,524,733 |
| New assets originated or purchased | 755,136 | 555,010 | 70,000 | 34,566 | – | 1,414,712 |
| Assets derecognized or repaid | (1,000,591) | (511,000) | (25,000) | – | – | (1,536,591) |
| Amortization of premium | (362) | – | – | (2,143) | – | (2,505) |
| Foreign exchange loss | – | – | – | (17,283) | – | (17,283) |
| At December 1 | 1,010,376 | 2,645,430 | 476,700 | 200,560 | 50,000 | 4,383,066 |
| Allowance for credit losses | | | | | | |
| At January 1 | 1,686 | 6,017 | 646 | 251 | 71 | 8,671 |
| Reversal of provision for impairment losses | (1,070) | (5,728) | (179) | (96) | (41) | (7,114) |
| At December 1 | 616 | 289 | 467 | 155 | 30 | 1,557 |

| 2021 | Government bonds | Corporate bonds | Retail treasury bonds | ROP bonds | Government securities with IC | Total |
|---|---|---|---|---|---|---|
| Gross carrying amount | | | | | | |
| At January 1 | 1,151,534 | 2,481,330 | 461,700 | 176,358 | 50,000 | 4,320,922 |
| New assets originated or purchased | 656,623 | 485,790 | – | 21,776 | – | 1,164,189 |
| Assets derecognized or repaid | (551,843) | (365,700) | (30,000) | – | – | (947,543) |
| Amortization of premium | (121) | – | – | (1,826) | – | (1,947) |
| Foreign exchange loss | – | – | – | (10,888) | – | (10,888) |
| At December 1 | 1,256,193 | 2,601,420 | 431,700 | 185,420 | 50,000 | 4,524,733 |
| Allowance for credit losses | | | | | | |
| At January 1 | 733 | 4,517 | 281 | 109 | 31 | 5,671 |
| Provision for impairment losses | 953 | 1,500 | 365 | 142 | 40 | 3,000 |
| At December 1 | 1,686 | 6,017 | 646 | 251 | 71 | 8,671 |

The carrying values of Stage 1 financial assets have been determined as at December 31 follows (in thousands of PHP):

| **2022** | FVTPL | FVOCI | Amortized cost | Total |
|---|---|---|---|---|
| At January 1 | 474,087 | 167 | 5,274,476 | 5,748,730 |
| Additions | 363,081 | – | 1,605,158 | 1,968,239 |
| Redemptions | (279,439) | – | (100,502) | (379,941) |
| Maturities | – | – | (1,648,065) | (1,648,065) |
| Fair value loss recognized in profit or loss | (59,791) | – | – | (59,791) |
| Amortization of premium | – | – | (2,505) | (2,505) |
| Foreign exchange adjustments | – | – | (17,283) | (17,283) |
| Provision for credit losses, net | – | – | 6,293 | 6,293 |
| At December 31 | 497,938 | 167 | 5,117,572 | 5,615,677 |

| **2021** | FVTPL | FVOCI | Amortized cost | Total |
|---|---|---|---|---|
| At January 1 | 483,133 | 167 | 5,079,953 | 5,563,253 |
| Additions | 440,516 | – | 1,164,260 | 1,604,776 |
| Redemptions | (254,463) | – | – | (254,463) |
| Maturities | (204,256) | – | (953,902) | (1,158,158) |
| Fair value gain recognized in profit or loss | 9,157 | – | – | 9,157 |
| Amortization of premium | – | – | (1,947) | (1,947) |
| Foreign exchange adjustments | – | – | (10,888) | (10,888) |
| Provision for credit losses, net | – | – | (3,000) | (3,000) |
| At December 31 | 474,087 | 167 | 5,274,476 | 5,748,730 |

*Allowance for credit losses*

The Company applied the general approach under PFRS 9, *Financial Instruments*, to measure expected credit losses (ECL) for its loans and receivables and debt securities.

To measure the ECL, the Company uses three categories that reflect the credit risk of the underlying receivable balance and how the loan loss provision is determined for each of those categories. A summary of the assumptions underpinning the Company's ECL model is as follows:

| Category | Definition of category | Basis for recognition of credit loss |
|---|---|---|
| Stage 1 | Counterparty debtors have a low risk of default and a strong capacity to meet contractual cash flows. | 12-month expected losses. Where the expected term of the loan is less than 12-months, expected losses are measured at its expected lifetime. |
| Stage 2 | Loans for which there is a significant increase in credit risk | Lifetime expected losses |
| Stage 3 | There is an objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. | Lifetime expected losses |

The movements in allowance for credit losses for the years ended December 31 follows:

| **2022** | Note | Debt securities | Loans and receivables | Total |
|---|---|---|---|---|
| At January 1 | | 8,671 | 17,552 | 26,223 |
| (Reversal of) provision for credit losses, net | 16 | (7,114) | 821 | (6,293) |
| At December 31 | | 1,557 | 18,373 | 19,930 |
| **2021** | | | | |
| At January 1 | | 5,671 | 17,552 | 23,223 |
| Provision for credit losses | 16 | 3,000 | – | 3,000 |
| At December 31 | | 8,671 | 17,552 | 26,223 |

**Note 5 - Investments in subsidiaries**

The carrying values of investments as at December 31 follow:

| | % of ownership | | Amounts | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Mace Insurance Agency, Inc. (Mace) | 100.00% | 100.00% | 1,999,400 | 1,999,400 |
| Keys Realty and Development Corporation (Keys) | 98.10% | 98.10% | 156,328,294 | 156,328,294 |
| Kompass Credit and Financing Corporation (Kompass) | 100.00% | 100.00% | 343,750,000 | 300,000,000 |
| | | | 502,077,694 | 458,327,694 |

In 2022, the Company paid additional investment in Kompass amounting to P43,750,000 or 437,500 shares at P100 par value.

*Mace*

Mace was registered with the Philippine SEC on May 20, 1980. It is primarily engaged in acting as a general or special agent in behalf of certain nonlife insurance companies.

*Keys*

Keys was registered with the Philippine SEC on March 11, 1993. It is primarily engaged in rendering mortuary service, pension house operation and in buying and developing real estate for sale and lease.

*Kompass*

Kompass was registered with the Philippine SEC on March 13, 2014, primarily to engage in general financing business through the grant of credit facilities to consumers and to industrial and commercial enterprises, either by direct lending or by discounting or factoring of commercial papers or accounts receivables, or by buying and selling contracts, leases, real estate or chattel mortgages, or other evidences of indebtedness, or by leasing of motor vehicles, heavy equipment and industrial machinery, business and office equipment, appliances and other movable property.

The Company's subsidiaries are all incorporated and domiciled in the Philippines.

The audited financial information of the subsidiaries as at and for the years ended December 31 follows:

| | 2022 | 2021 |
|---|---|---|
| **Keys** | | |
| Total assets | 813,354,518 | 717,589,137 |
| Total liabilities | 128,924,420 | 109,515,986 |
| Revenue | 84,318,349 | 75,659,373 |
| Net income | 11,422,338 | 10,854,864 |
| Total comprehensive income | 82,299,859 | 69,175,222 |
| **Mace** | | |
| Total assets | 12,832,451 | 13,153,393 |
| Total liabilities | 8,985,057 | 13,619,338 |
| Revenue | 9,624,824 | 9,501,757 |
| Net income | 821,641 | 798,306 |
| Total comprehensive income | 4,313,339 | (2,517,915) |
| **Kompass** | | |
| Total assets | 372,202,394 | 325,236,841 |
| Total liabilities | 3,384,036 | 7,693,801 |
| Revenue | 21,514,988 | 18,351,579 |
| Net income | 11,292,023 | 7,533,411 |
| Total comprehensive income | 11,292,023 | 7,533,411 |

Dividend income earned from the subsidiaries for the years ended December 31 follows:

| | 2022 | 2021 |
|---|---|---|
| Keys | 5,839,791 | 4,843,676 |
| Kompass | 3,975,125 | 3,387,844 |
| Mace | − | 1,000,000 |
| | 9,814,916 | 9,231,520 |

## Note 6 - Property and equipment, net

*At cost*

| **2022** | Note | Transportation equipment | Office and building equipment | Furniture and fixtures | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At January 1 | | 8,511,557 | 61,891,473 | 7,354,089 | 77,757,119 |
| Additions | | 2,114,000 | 4,996,556 | 329,946 | 7,440,502 |
| Disposals | | (2,221,000) | − | − | (2,221,000) |
| At December 31 | | 8,404,557 | 66,888,029 | 7,684,035 | 82,976,621 |
| **Accumulated depreciation** | | | | | |
| At January 1 | | 4,645,318 | 55,601,678 | 7,265,141 | 67,512,137 |
| Depreciation | 16 | 1,304,066 | 3,204,457 | 111,596 | 4,620,119 |
| Disposals | | (1,383,911) | − | − | (1,383,911) |
| At December 31 | | 4,565,473 | 58,806,135 | 7,376,737 | 70,748,345 |
| **Net book value** | | 3,839,084 | 8,081,894 | 307,298 | 12,228,276 |

| 2021 | Note | Transportation equipment | Office and building equipment | Furniture and fixtures | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At January 1 | | 8,330,817 | 59,931,041 | 7,354,089 | 75,615,947 |
| Additions | | 1,158,740 | 1,960,432 | – | 3,119,172 |
| Disposals | | (978,000) | – | – | (978,000) |
| At December 31 | | 8,511,557 | 61,891,473 | 7,354,089 | 77,757,119 |
| **Accumulated depreciation** | | | | | |
| At January 1 | | 4,278,847 | 54,333,081 | 7,193,425 | 65,805,353 |
| Depreciation | 16 | 1,344,471 | 1,268,597 | 71,716 | 2,684,784 |
| Disposals | | (978,000) | – | – | (978,000) |
| At December 31 | | 4,645,318 | 55,601,678 | 7,265,141 | 67,512,137 |
| **Net book value** | | 3,866,239 | 6,289,795 | 88,948 | 10,244,982 |

*At appraised value*

| 2022 | Note | Land | Building and improvements | Total |
|---|---|---|---|---|
| **Appraised value** | | | | |
| At January 1 | | 268,762,780 | 84,463,255 | 353,226,035 |
| Additions | | | 621,825 | 621,825 |
| At December 31 | | 268,762,780 | 85,085,080 | 353,847,860 |
| **Accumulated depreciation** | | | | |
| At January 1 | | – | 16,892,651 | 16,892,651 |
| Depreciation | 16 | – | 2,187,624 | 2,187,624 |
| At December 31 | | – | 19,080,275 | 19,080,275 |
| **Net book value** | | 268,762,780 | 66,004,805 | 334,767,585 |

| 2021 | Note | Land | Building and improvements | Total |
|---|---|---|---|---|
| **Appraised value** | | | | |
| At January 1 | | 268,762,780 | 84,463,255 | 353,226,035 |
| Change in revaluation increment | | – | – | – |
| At December 31 | | 268,762,780 | 84,463,255 | 353,226,035 |
| **Accumulated depreciation** | | | | |
| At January 1 | | – | 14,781,070 | 14,781,070 |
| Depreciation | 16 | – | 2,111,581 | 2,111,581 |
| At December 31 | | – | 16,892,651 | 16,892,651 |
| **Net book value** | | 268,762,780 | 67,570,604 | 336,333,384 |

The Company's land, building and improvements were revalued as at December 31, 2020 by the independent SEC-accredited appraiser, Intech Property Appraisal, Inc. Management assessed that the fair values of the land, building and improvements substantially remain the same as at December 31, 2022 and 2021.

The determination of the appraised value for land is categorized under Level 3 in the fair value hierarchy using Market Data Approach. This approach involves direct comparison of the subject property with similar land parcels and real properties for which actual data on recent market transactions are available. Comparable data are adjusted to reflect the differences between each comparable property and the subject property. Elements of comparison include real property rights conveyed, financing terms, conditions of sale, expenditures made immediately after purchase, market conditions, location, physical characteristics, and economic characteristics. Direct comparisons are then made between a comparable property and the subject property using a grid analysis taking into consideration possible adjustments based on differences in the elements of comparison. The significant unobservable inputs include price per square meter of each property, allowance for market condition and allowance for discount. The increase in price per meter will increase the fair value, while an increase in allowance for market condition and allowance for discount will decrease the fair value.

The fair value of the buildings and improvements is categorized under level 3 in the fair value hierarchy using the Depreciated Reproduction Cost (DRC) Method. This method is an application of the Cost Approach that is used to estimate the value of improvements for fair value purposes or other purposes. The method involves the estimation of the current cost (Reproduction Cost, New) of replacing an asset with its modern equivalent less deductions for physical deterioration, functional obsolescence and economic obsolescence. The significant unobservable input include the net reproduction cost. The increase in net reproduction cost will increase the fair value.

Depreciation for all property and equipment charged during the year amounted to P6,807,743 in 2022 (2021 - P4,796,365) (Note 16).

The Company transferred P802,745 from revaluation increment on property and equipment to unappropriated surplus representing the depreciation of revaluation increment of building and land and building improvements charged to profit or loss for the years 2022 and 2021.

If land, building and improvements were measured using the cost model, the carrying amounts as at December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Cost | | |
| Land | 1,616,858 | 1,616,858 |
| Building | 52,798,992 | 52,798,992 |
| Land and building improvements | 2,054,052 | 1,508,227 |
| | 56,469,902 | 55,924,077 |
| Accumulated depreciation | (13,732,203) | (12,347,324) |
| Net carrying amount | 42,737,699 | 43,576,753 |

The Company disposed transportation equipment with carrying amount of P837,089 in 2022 (2021 - nil), resulting in a gain on disposal of P135,000 (2021 - P132,500).

## Note 7 - Insurance contract liabilities

The account as at December 31 consists of:

| | 2022 | 2021 |
|---|---|---|
| Claims payable | 160,389,706 | 191,854,859 |
| Legal policy reserves | 5,177,005,685 | 4,930,852,349 |
| | 5,337,395,391 | 5,122,707,208 |

The analysis of insurance contract liabilities as at December 31 follows:

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Insurance contract liabilities | Reinsurer's share of liabilities | Net | Insurance contract liabilities | Reinsurer's share of liabilities | Net |
| Aggregate reserves for ordinary life policies | 5,173,515,431 | (500,557) | 5,173,014,874 | 4,920,088,547 | (645,101) | 4,919,443,446 |
| Aggregate reserves for group life policies | 3,990,811 | - | 3,990,811 | 11,408,903 | - | 11,408,903 |
| Total | 5,177,506,242 | (500,557) | 5,177,005,685 | 4,931,497,450 | (645,101) | 4,930,852,349 |
| Death claims, maturities and surrender payables | 160,389,706 | - | 160,389,706 | 191,854,859 | - | 191,854,859 |
| | 5,337,895,948 | (500,557) | 5,337,395,391 | 5,123,352,309 | (645,101) | 5,122,707,208 |

The analysis of legal policy reserves as at December 31 follows:

| | 2022 | 2021 |
|---|---|---|
| **Gross** | | |
| With fixed and guaranteed terms | | |
| Partially fixed and guaranteed - participating | 5,000,024,559 | 4,755,209,427 |
| Fixed and guaranteed - nonparticipating | 177,481,683 | 176,288,023 |
| Total gross insurance liabilities | 5,177,506,242 | 4,931,497,450 |
| Recoverable from reinsurers: | | |
| With fixed and guaranteed terms | | |
| Partially fixed and guaranteed - participating | 500,557 | 645,101 |
| **Net** | | |
| With fixed and guaranteed terms | | |
| Partially fixed and guaranteed - participating | 4,999,524,002 | 4,754,564,326 |
| Fixed and guaranteed - nonparticipating | 177,481,683 | 176,288,023 |
| Total net insurance liabilities | 5,177,005,685 | 4,930,852,349 |

Movements in legal policy reserves as at December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| At January 1 | 4,930,852,349 | 4,728,877,728 |
| Tabular net premiums or considerations | 536,532,034 | 549,949,177 |
| Tabular interest | 250,494,810 | 241,968,186 |
| | 5,717,879,193 | 5,520,795,091 |
| Tabular cost | 128,097,300 | 211,765,650 |
| Reserves released by death | 82,707,472 | 96,463,914 |
| Reserves released by other terminations | 330,125,150 | 281,115,332 |
| | 540,929,922 | 589,344,896 |
| Foreign exchange loss (gain) | 56,414 | (597,846) |
| At December 31 | 5,177,005,685 | 4,930,852,349 |

Movements in claims payable as at and for the years ended December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| At January 1 | 191,854,859 | 162,341,951 |
| Claims | 573,218,448 | 678,184,865 |
| Payments | (604,683,601) | (648,671,957) |
| At December 31 | 160,389,706 | 191,854,859 |

## Note 8 - Insurance contract liabilities - terms and assumptions

### 8.1 Life insurance contract liabilities

For life benefit certificates with fixed and guaranteed terms (including partially fixed and guaranteed terms), the Company determines assumptions in relation to future deaths at inception of the contracts. These assumptions are used for calculating the liabilities during the life of the contract. These assumptions are in compliance with statutory requirements of the IC.

*Terms*

Life benefit certificates offered by the Company mainly include: (a) traditional whole life participating policies (with and without anticipated endowments) and a wide range of non-participating riders (i.e., accidental death and dismemberment, term, critical illness, hospital income, term life, etc.); (b) various non-participating products; and (c) a participating US Dollar single premium product. In addition, the Company offers group yearly renewable term, personal accident and in-patient medical products.

*Assumptions*

Material judgment is required in determining the liabilities and in the choice of assumptions relating to benefit certificates and investment contracts. Such assumptions are determined as appropriate and prudent estimates at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals.

## 8.2 Reinsurance - assumptions and methods

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on surplus basis with retention limits varying by product. Amounts payable to reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying benefits and are recognized under the “Accounts payable and other liabilities” account in the liabilities section of the Company statement of financial position. Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its benefit certificate holders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. Due to reinsurers amounts to P565,319 in 2022 (2021 - P357,078).

The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

*Key assumptions*

Material judgment is required in determining in the choice of assumptions and the liabilities relating to benefit certificates. Assumptions are based on past experience, current internal data and conditions and external market indices and benchmarks, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate at inception of the contract and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are subject to the provisions of the Insurance Code (the “Code”) and guidelines set by the IC.

For benefit certificates, the Company determines the assumptions in relation to future deaths, illnesses or injuries at inception of the contract. Subsequently, new estimates are developed at each reporting date and liabilities are tested to determine whether such liabilities are adequate in the light of the latest estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, the assumptions are altered (‘unlocked’) to reflect the latest estimates. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant deteriorations in estimates have an impact.

The key assumptions to which the estimation and adequacy testing of liabilities are particularly sensitive follows:

- Mortality and morbidity rates

  Assumptions are based on standard industry and published mortality and morbidity tables, according to the type of contract written, when appropriate to reflect the Company’s own experiences. Assumptions are differentiated by underwriting class and contract type.
  For life insurance benefit certificates, increased mortality and morbidity rates would lead to a larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and reducing profits for the members.

- Discount rates

  Life insurance liabilities are determined as the sum of the discounted value of the expected benefits, less the discounted value of the expected theoretical insurance contributions that would be required to meet these future cash outflows. Interest rates used for estimating liabilities are capped at 6.0% as prescribed by the Code and guidelines set by the IC.

Any event could make the statutory minimum reserves prescribed by the Code insufficient. Therefore, the Company conducts tests to review the change in reserve level which would occur if the key assumptions were changed (Note 24.2).

The assumptions that have the greatest effect on the Company's statement of financial position and statement of income in both years are mortality and morbidity and discount rates.

A variation in said assumptions would ultimately impact the overall profitability of the Company's insurance products. The following shows the approximate changes in the products' profit margin as well as the long-term surplus share on in force certificates, assuming an increase or decrease in mortality rates or interest rates and holding other assumptions constant as at December 31:

| **2022** | **Change in assumptions** | **Impact on liabilities** | **Impact on excess of revenue over expenses before final tax** | **Impact on net worth** |
|---|---|---|---|---|
| Mortality/Morbidity | 10% higher | 42,896,985 | (21,448,493) | (21,448,493) |
| | 10% lower | (80,080,981) | 40,040,490 | 40,040,490 |
| Discount rate | 1% higher | (154,529,339) | 77,264,669 | 77,264,669 |
| | 1% lower | 362,174,523 | (181,087,261) | (181,087,261) |
| **2021** | | | | |
| Mortality/Morbidity | 10% higher | 56,174,916 | (28,087,458) | (28,087,458) |
| | 10% lower | (70,754,180) | 35,377,090 | 35,377,090 |
| Discount rate | 1% higher | (128,638,034) | 64,319,017 | 64,319,017 |
| | 1% lower | 375,515,607 | (187,757,804) | (187,757,804) |

The correlation of assumptions will have a significant effect on determining the claims liabilities. It should be stressed that these assumptions are nonlinear and larger or smaller impacts cannot be easily gleaned from results of sensitivity analyses.

**Note 9 - Other investment contract liabilities**

The account as at December 31 consists of:

| | 2022 | 2021 |
|---|---|---|
| College Savings Plan (CSP) annuity deposit | 197,615,961 | 205,502,476 |
| Flexible annuity deposit | 39,040,610 | 41,323,843 |
| | 236,656,571 | 246,826,319 |

CSP pertains to contribution received from benefit certificate holders of KC College Savings Plan. In both years, CSP annuity deposit earns interest based on 11.0% fixed annual interest rate with an average term of five (5) to 15 years, while flexible annuity deposits earn fixed annual interest rate of 8.0%.

Interest expense on other investment contract liabilities for the year ended December 31, 2022 amounts to P25,401,650 (2021 - P21,446,153) (Note 18).

**Note 10 - Other insurance contract liabilities**

The account consists of accumulated special endowment and accumulated return on contribution outstanding at year end amounting to P3,934,580 (2021 - P3,649,697).

## Note 11 - Member's participation payable

Members' participation payable pertains to dividends attributable to members, of which majority of the balance are left to accumulate and held in-trust as opted by the benefit certificate holders. Dividends are paid out, applied to premiums outstanding or accumulated at the option of the policyholder.

Members' participation payable amounted to P122,931,606 as at December 31, 2022 (2021 - P127,940,142). Participation of benefit certificate holders amounted to P16,000,000 in December 31, 2022 (2021 - P13,000,000).

The dividends attributable to the members earn at a fixed interest of 0.10% in 2022 and 2021. Interest expense attributable to this account amounts to P104,928 for the year ended December 31, 2022 (2021 - P118,456) (Note 18).

## Note 12 - Accounts payable and other liabilities

The account as at December 31 consists of:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Accounts payable | | 107,169,611 | 126,003,973 |
| Accrued expenses | | 16,846,574 | 15,551,626 |
| Advance contribution payment | | 11,038,569 | 7,930,673 |
| Contribution deposits | | 10,012,712 | 12,648,081 |
| Withholding tax payable | 28 | 1,255,861 | 1,430,183 |
| Due to reinsurers | 8 | 565,319 | 357,078 |
| Others | | 11,648,912 | 5,465,522 |
| | | 158,537,558 | 169,387,136 |

Accounts payable consist mainly of payables to fraternal counselors, suppliers, and checks unreleased as at year-end.

Accrued expenses mainly represent operating expenses, including estimated expenses incurred during the year but remain unpaid as of year-end.

Advance contribution payment represents premiums contributions received by the Company in excess of premium contribution due as at year-end. Interest expense on advance contribution payment for the year ended December 31, 2022 amounted to P11,556 (2021 - P9,154) (Note 18). Interest rate on advance contribution payment is 0.002% in 2022 and 2021.

Contribution deposits pertain to amounts received from membership applicants to cover the initial contribution pending issuance of benefit certificate.

Withholding taxes payable pertains to taxes withheld for salaries, fraternal counselors' commission, professional fees and others and are remitted to the government agencies within one month.

Due to reinsurers represents premiums due and unpaid on reinsurance agreements entered into by the Company.

Others represent unpaid fraternal counselors' accreditation fees and policy dividends.

## Note 13 - Interest income

The account for the years ended December 31 for the following financial assets are as follows:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Financial assets at amortized cost | 4 | 273,796,237 | 279,877,665 |
| Loans and receivables | 4 | 60,402,822 | 58,453,755 |
| Cash and cash equivalents | 2 | 4,836,756 | 675,494 |
| Short-term investments | 2 | 686,596 | 3,447 |
| | | 339,722,411 | 339,010,361 |

## Note 14 - Gross earned contributions on insurance contracts

Details of the gross earned contributions on insurance contracts for the years ended December 31 are as follow:

| | Gross earned contributio ns | Reinsurer's share | Net earned contributio ns |
|---|---|---|---|
| **2022** | | | |
| First year | 156,741,932 | (20,287) | 156,721,645 |
| Renewals | 602,203,421 | (750,895) | 601,452,526 |
| Group | 40,201,647 | - | 40,201,647 |
| | 799,147,000 | (771,182) | 798,375,818 |
| **2021** | | | |
| First year | 138,107,858 | (14,379) | 138,093,479 |
| Renewals | 582,968,766 | (868,591) | 582,100,175 |
| Group | 46,939,760 | - | 46,939,760 |
| | 768,016,384 | (882,970) | 767,133,414 |

## Note 15 - Gross benefits and claims on insurance contracts

The account for the years ended December 31 consists of:

| | 2022 | 2021 |
|---|---|---|
| Maturity claims | 325,935,317 | 342,422,469 |
| Death claims | 148,947,707 | 247,291,769 |
| Surrenders | 96,470,956 | 86,543,029 |
| Auto conversion paid-up | 1,728,211 | 1,809,406 |
| Disability waiver | 71,994 | 97,279 |
| Hospitalization claims | 46,500 | 3,150 |
| Payors' benefits | 17,763 | 17,763 |
| Net claims and surrenders | 573,218,448 | 678,184,865 |

## Note 16 - General and administrative expenses

The account for the years ended December 31 consists of:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Personnel expenses | | 61,436,841 | 53,565,728 |
| Prizes and awards | | 13,545,087 | 7,593,001 |
| Transportation and travel | | 10,683,322 | 7,487,595 |
| Depreciation | 6 | 6,807,743 | 4,796,365 |
| Repairs and maintenance | | 6,272,057 | 4,534,338 |
| Contributions to benevolent causes | | 5,764,899 | 2,658,186 |
| Postage and communication | | 4,751,462 | 4,587,101 |
| Professional fees | | 4,328,002 | 3,102,227 |
| Trainings and seminars | | 4,225,881 | 1,373,710 |
| Light and water | | 3,771,034 | 2,987,365 |
| Stationeries and supplies | | 2,731,246 | 2,255,214 |
| Insurance | | 1,617,228 | 1,449,759 |
| Security services | | 1,509,061 | 1,438,468 |
| Market development expenses | | 1,126,927 | 54,200 |
| Taxes and licenses | | 1,052,970 | 829,134 |
| Entertainment, amusement and recreation | | 976,761 | 1,452,897 |
| Rent | 22 | 308,002 | 294,952 |
| Advertising and promotions | | 137,400 | 226,948 |
| Dues and subscriptions | | 144,228 | 173,245 |
| (Reversal of) provisions for credit losses, net | 4 | (6,293,635) | 3,000,001 |
| Others | | 8,453,303 | 3,813,039 |
| | | 133,385,393 | 107,673,473 |

## Note 17 - Commissions and other direct expenses

The account for the years ended December 31 consists of:

| | 2022 | 2021 |
|---|---|---|
| Fraternal counselors allowances - first year | 40,993,921 | 37,119,549 |
| Fraternal counselors allowances - renewal | 20,056,303 | 18,797,054 |
| Override allowance | 19,591,078 | 19,260,493 |
| Miscellaneous | 174,942 | 1,105,501 |
| | 80,816,244 | 76,282,597 |

Allowances pertain to commissions earned by the fraternal counselors from contribution premiums collected from benefit certificate holders and which allowance rates varies per type of plan.

## Note 18 - Interest expense

The account for the years ended December 31 consists of:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Interest expense, net, on: | | | |
| Other investment contract liabilities | 9 | 25,401,650 | 21,446,153 |
| Retirement plan | 19 | 248,426 | 604,267 |
| Members' participation payable | 11 | 104,928 | 118,456 |
| Accounts and other liabilities | 12 | 11,556 | 9,154 |
| Others, net | | 3,381 | (301,298) |
| | | 25,769,941 | 21,876,732 |

## Note 19 - Retirement plan

The Company has a tax-qualified, funded and non-contributory retirement plan covering all of the Company's permanent employees. The plan is administered by the local banks as trustee, Banco de Oro - Trust and Investments Group and Bank of the Philippine Islands Asset Management.

The Company's annual contribution to the plan consists principally of payments which covers the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable. The funds are administered by the Trustee under the supervision of the BOT of the plan which delegates the implementation of the investment policy to the Trustee. These funds are subject to the investment objectives and guidelines established by the Trustee and rules and regulations issued by Bangko Sentral ng Pilipinas covering assets under trust and fiduciary agreements. The Trustee is responsible for the investment strategy of the plan.

The latest actuarial valuation date of the Company's retirement valuation was made on December 31, 2022 and 2021.

Republic Act 7641, *The New Retirement Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. The law does not require minimum funding of the plan.

The components of the retirement benefits cost recognized in profit or loss for the years ended December 31 follow:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Current service cost | 20 | 7,217,632 | 8,322,824 |
| Net interest cost | 18 | 248,426 | 604,267 |
| | | 7,466,058 | 8,927,091 |

Net pension liability recognized in the statement of financial position as at December 31 are determined as follows:

| | 2022 | 2021 |
|---|---|---|
| Present value of defined benefit obligation | 84,866,545 | 110,876,836 |
| Fair value of plan assets | (103,121,582) | (109,402,252) |
| Effect of asset ceiling | 2,745,166 | - |
| Pension (asset) liability, net | (15,509,871) | 1,474,584 |

Movements in the pension (asset) liability, net, as at and for the years ended December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| At January 1 | 1,474,584 | 16,048,321 |
| Retirement benefit expense | 7,466,058 | 8,927,091 |
| Remeasurement gain recognized in OCI | (21,204,573) | (20,219,856) |
| Contributions | (3,245,940) | (3,280,972) |
| At December 31 | (15,509,871) | 1,474,584 |

Changes in the present value of defined benefit obligation as at and for the years ended December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| At January 1 | 110,876,836 | 121,946,845 |
| Current service cost | 7,217,632 | 8,322,824 |
| Interest cost | 5,687,982 | 4,841,290 |
| Actuarial gain | (28,933,910) | (22,608,123) |
| Benefits paid | (9,981,995) | (1,626,000) |
| At December 31 | 84,866,545 | 110,876,836 |

Changes in the fair value of plan assets as at and for the years ended December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| At January 1 | 109,402,252 | 105,898,524 |
| Interest income | 5,439,556 | 4,237,023 |
| Remeasurement loss | (4,984,171) | (2,388,267) |
| Benefits paid | (9,981,995) | (1,626,000) |
| Contributions | 3,245,940 | 3,280,972 |
| At December 31 | 103,121,582 | 109,402,252 |

Movement in net pension asset includes the effect of asset ceiling amounting to P2,745,166 (2021 - nil).

The movements in the remeasurement gain on defined benefit obligation recognized in other comprehensive income as at December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| At January 1 | 33,370,086 | 13,150,230 |
| Actuarial gain due to: | | |
| Changes in financial assumption | 7,149,402 | 15,258,587 |
| Experience adjustments | 11,364,505 | 7,322,236 |
| Demographic assumptions | 10,420,003 | 27,300 |
| Return on asset excluding amount included in net interest cost | (4,984,171) | (2,388,267) |
| Effect of asset ceiling | (2,745,166) | - |
| Net changes | 21,204,573 | 20,219,856 |
| At December 31 | 54,574,659 | 33,370,086 |

The composition of the Company's plan assets as at December 31 follows:

| | 2022 | 2021 |
|---|---|---|
| Government securities | 33,782,630 | 41,299,350 |
| Equities | 19,830,280 | 26,847,313 |
| Unit investment trust funds | 17,190,368 | 17,624,703 |
| Corporate bonds | 12,931,446 | 10,316,632 |
| Cash, net of payables | 8,631,276 | 2,209,926 |
| Loans | 7,074,141 | 6,629,776 |
| Mutual funds | 3,681,441 | 4,474,552 |
| | 103,121,582 | 109,402,252 |

All financial instruments held have quoted prices in active markets. The plan assets have diverse investments and do not have any concentration risk. The plan assets of the Company do not have any investments in the Company's related parties.

The present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining the pension obligation for the defined benefit plans as at December 31 are shown below:

| | 2022 | 2021 |
|---|---|---|
| Discount rate | 7.19% | 5.13% |
| Salary increase rate | 9.00% | 8.00% |
| Average remaining working lives of employees | 21.6 years | 21.3 years |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant as at December 31:

| | | Increase (decrease) | |
|---|---|---|---|
| | Rates | 2022 | 2021 |
| Discount rate | +1.00% | (5,736,611) | (10,879,831) |
| | -1.00% | 6,540,463 | 12,959,252 |
| Salary increase rates | +1.00% | 6,362,154 | 12,458,089 |
| | -1.00% | (5,696,247) | (10,705,107) |

The Company expects to contribute P4,000,000 to the retirement fund in 2023.

Shown below is the maturity analysis of the Company's defined benefit obligation based on undiscounted benefit payments as at December 31:

| | 2022 | 2021 |
|---|---|---|
| Less than 1 year | 10,092,199 | 12,583,828 |
| More than 1 year to 5 years | 36,560,800 | 34,168,878 |
| More than 5 years to 10 years | 56,086,592 | 50,920,506 |

## Note 20 - Personnel expenses

Details of personnel expenses included in general and administrative expenses for the years ended December 31 follow:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Salaries and wages | | 48,860,797 | 41,092,773 |
| Retirement benefit expense | 19 | 7,217,632 | 8,322,824 |
| Social security costs | | 2,161,388 | 2,057,494 |
| Other employee benefits | | 3,197,024 | 2,092,637 |
| | | 61,436,841 | 53,565,728 |

## Note 21 - Income taxes

As a nonstock, not-for-profit mutual benefit Company organized to provide optimum fraternal benefits to its members and their immediate families, the Company's net income over expenses is exempt from payment of income tax as set forth in Section 30 (c) of the National Internal Revenue Code (NIRC) as amended by Executive Order 273.

The tax expense shown in the Company statement of income amounting to P53,551,358 for the year ended December 31, 2022 (2021 - P53,407,393) pertain to the final taxes withheld at source from interest income.

## Note 22 - Lease commitments

*Company as lessee*

The Company has a lease covering their office premises in its Cebu service offices with lease terms ranging from one (1) to three (3) years with no escalation clause. The lease contract expired on December 31, 2021 and was renewed for another year until December 31, 2022. This lease agreement is renewable at the option of both parties.

Future minimum rental payments within one year under non-cancellable operating lease amounted to P225,792 as at December 31, 2022 and 2021.

For the year ended December 31, 2022, the rent expense recognized on this operating lease agreement is included under "General and administrative expenses" account amounting to P308,002 (2021 - P294,952) (Note 16). Deposits made under this operating lease agreement are intended to be applied against the remaining lease payments.

## Note 23 - Related party transactions

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

Related party transactions and balances as at and for the years ended December 31 follows:

| 2022 | Notes | Transactions | Outstanding balance | Terms and conditions |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| *Non-trade receivables* | (a) | | | |
| Kompass | | 346,502 | 971,121 | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| Mace | | (101,541) | 132,438 | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| Keys | | 272,823 | 423,488 | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| **Entities under common control** | | | | |
| *Non-trade receivables* | (a) | | | |
| Knights of Columbus Philippines Foundation, Inc. (KC Foundation) | | (293,021) | 407,692 | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| Knights of Columbus Fr. George J. Willmann Charities, Inc. (KC Willmann) | | 1,665 | 101,866 | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| *Donations* | (b) | | | |
| KC Willmann | | 4,464,899 | - | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| | | | 2,036,605 | |

| 2021 | Notes | Transactions | Outstanding balance | Terms and conditions |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| *Non-trade receivables* | (a) | | | |
| Kompass | | (486,085) | 624,619 | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| Mace | | 233,836 | 233,979 | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| Keys | | 150,665 | 150,665 | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| **Entities under common control** | | | | |
| *Non-trade receivables* | (a) | | | |
| KC Foundation | | 664,886 | 700,713 | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| KC Willmann | | (157,260) | 100,201 | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| *Donations* | (b) | | | |
| KC Willmann | | 1,178,186 | - | Collectible in cash at gross amount; Non-interest bearing; Due on demand; Unsecured |
| | | | 1,810,177 | |

*(a) Charges for certain allocated expenses*

The Company charges its subsidiaries and other entities under common control with certain allocated expenses. These charges are mainly pertaining to utilities, payroll services fees, postage, and miscellaneous expenses. The outstanding receivables arising from this transaction are shown as part of "Loans and receivables" account under financial assets at amortized costs (Note 4).

*(b) Donations*

The Company donates to KC Foundation and KC Willmann earmarked for charitable purposes. Donations to the foundations amount to P4,464,899 in 2022 (2021 - P1,178,186). This is included in general and administrative expenses under contributions to benevolent causes (Note 16).

*Investment management arrangements*

These pertain to the Company's agreements with KC Philippines Foundation, Inc. and Fr. George Willmann Charities, Inc. whereby the Company will manage the Foundations' placements during initial issuance of debt securities in order to avail of the preferential rates at no cost to the Foundations.

Accommodated placements amount to P25,975,035 during 2022 (2021 - nil).

Dividend income from subsidiaries amounted to P9,814,916 for the year ended December 31, 2022 (2021 - P9,231,520) (Note 5).

*Compensation of key management personnel*

The summary of the compensation of key management personnel for the years ended December 31 follows:

| | 2022 | 2021 |
|---|---|---|
| Short-term benefits | 22,279,712 | 19,814,920 |
| Other long-term benefits | 764,901 | 789,804 |
| | 23,044,613 | 20,604,724 |

There are no balances payable to key management personnel as at December 31, 2022 and 2021.

As at December 31, 2022 and 2021, the Company has not provided any allowance for impairment losses for amount owed by related parties. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

## Note 24 - Summary of significant accounting judgments, estimates and assumptions

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

### 24.1 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 Company's financial statements.

*Product classification (Note 9)*

The Company classifies products as investment and insurance contracts based on the significance of risk transferred. The CSP and flexible annuity deposit were unbundled into investment and insurance components. The Company classifies the investment component of CSP and flexible annuity deposit as investment contracts.

*Classification of financial assets (Note 4)*

The Company classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amounting outstanding.

The Company performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

In performing the SPPI test, the Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

*Impairment of nonfinancial assets (Notes 5 and 6)*

The Company assesses impairment on nonfinancial assets such as property and equipment and investment in subsidiaries whenever events or changes in circumstances indicate that the carrying amount of an asset 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 its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

As at December 31, 2022 and 2021, the Company has determined that there are no indications of impairment on its nonfinancial assets, such as, property and equipment, net, and investments in subsidiaries.

*Contingencies*

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results.

The Company currently does not believe these proceedings will have a material effect on the Company statement of financial position or results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

### 24.2 Estimates

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

*Impairment of financial assets*

(i) Financial assets at amortized cost (Note 4)

For financial assets at amortized cost, a risk sensitive model is used, with computed loss rates based on historical data for stage 1 and stage 2. For stage 3 accounts, the loss rate is based on the LGD rate as PD is assessed to be at 100%.

(ii) Premiums due and uncollected (Note 3)

No impairment allowance is provided for premiums due and uncollected as the Company has a policy to suspend and lapse the accounts which remain unpaid over 30 days. The lapsed account can still be reinstated provided that unpaid premiums are settled.

(iii) Cash and cash equivalents (Note 2)

The impairment allowance computation for cash and cash equivalents is a product of PD, LGD, and EAD. No impairment allowance is provided for cash and cash equivalents as at December 31, 2022 and 2021.

*Fair value of land, building and improvements (Note 6)*

The Company's land, building and their related improvements are stated at revalued amount or fair value which were determined by an independent firm of appraisers using the market and cost approaches for land and building and improvements, respectively. Significant adjustments to inputs used in determining the fair value of these assets such as location, utility, current replacement cost and useful life could affect the appraised values of the property, plant and equipment. The sensitivity analysis on these revalued non-financial assets are disclosed in Note 6.

*Claims liability arising from insurance contracts (Note 7)*

This consist of legal policy reserves which are determined by the Company's actuary in accordance with the requirements of the Code and represent the amounts which, together with future premiums, are required to discharge the obligations of the benefit certificates. These reserves are determined using generally accepted actuarial practices and have been approved by the IC at the product approval stage.

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

The liability for the life benefit certificates is based on assumptions established at the inception of the contract. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability. The main assumptions used relate to mortality, morbidity and discount rates.

In determining the liability for life benefit certificates, estimates are made as to the expected number of deaths, illnesses or injuries for each of the years in which the Company is exposed to risk. These estimates are based on standard mortality and morbidity tables as required by the Code. The estimated number of deaths, illnesses or injuries determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient coverage by reserves, which in return is monitored against current and future insurance contributions. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

In accordance with the provision of the Code, estimates for future deaths, illnesses or injuries and investment returns are determined at the inception of the contract and are used to calculate the liability over the term of the contract. The interest rate used to discount future liabilities does not exceed 6% as required by the Code. Likewise, no lapse and expense assumptions are factored in the computation of the liability. The sensitivity analysis is disclosed in Note 8.

*Liability Adequacy Test (LAT) (Note 8)*

LAT is performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims. Any inadequacy (or deficiency) is immediately charged (or recognized) under profit or loss. The LAT result supports the adequacy of recorded reserves, and that there is no additional reserve requirement for 2022 and 2021. The sensitivity analysis is disclosed in Note 8.

*Retirement benefits (Note 19)*

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuation. The actuarial valuation involves making various assumptions. These include the determination of the discount rates and future salary increases, among others. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country.

The sensitivity analysis is disclosed in Note 19.

## Note 25 - Management of insurance and financial risks

### 25.1 Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective risk management systems in place.

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

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

### 25.2 Insurance risk

Insurance risk under a benefit certificate is the possibility of the occurrence of an insured event and the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such benefit certificates is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

*Terms and conditions*

The Company principally writes life insurance where the life of benefit certificate holder is insured against death, illness, injury or permanent disability, usually for predetermined amount.
Life benefit certificates offered by the Company mainly include whole life, term insurance and endowments.

Whole life and term insurance are conventional products where lump sum benefits are payable upon death.

Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the period is completed.

The risks associated with the life and accident and health products are underwriting risk and investment risk.

*Underwriting risk*

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

- Mortality and morbidity risks - risk of loss due to benefit certificate holder death experience being different than expected.
- Longevity risk - risk of loss arising due to the annuitant living longer than expected.
- Expense risk - risk of loss due to expense experience being different than expected.
- Benefit certificate holder decision risk - risk of loss due to benefit certificate holder experiences (lapses and surrenders) being different than expected.

The variability of risks is improved by diversification of risk of loss of a large portfolio of benefit certificates, as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines.

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

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

The Company aims to control and minimize insurance risk, to reduce volatility of operating profits.

The Company manages insurance risk through the following mechanisms:

- The use and maintenance of management information systems that provide up to date, accurate and reliable data on risk exposure at any point in time; and

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

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

The Company's concentration of insurance risk before and after reinsurance in relation to the type of benefit certificate as at December 31 follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Gross | Net | Gross | Net |
| Whole life/ endowment | 13,389,854,813 | 13,300,365,432 | 13,087,008,009 | 13,002,814,545 |
| Term insurance | 738,748,680 | 738,748,680 | 536,464,456 | 536,464,456 |
| Group insurance | 3,146,990,000 | 3,146,990,000 | 2,395,120,000 | 2,395,120,000 |
| | 17,275,593,493 | 17,186,104,112 | 16,018,592,465 | 15,934,399,001 |

**25.3 Fair value of financial instruments**

Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, benefit certificate loans, due from related parties, other receivables and accrued income, claims payable, other investment and insurance contract liabilities, member's participation payable and accounts payable and other liabilities, their carrying values reasonably approximate fair values as of the reporting date. For mortgage and collateral loans, the carrying value of P1,749,697 in 2022 (2021 - P3,814,783) approximates the fair value.

The fair value of financial assets at FVTPL, financial assets at FVOCI that are actively traded in organized financial markets is determined by reference to quoted market prices, at the close of business on the end of the reporting period.

Due to the long-term nature of financial assets at amortized cost, the fair value of these investments is based on the quoted market prices at the end of the reporting date.

The table below presents the fair value hierarchy of the Company's assets that are measured at fair value on a recurring basis at December 31.

| 2022 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets measured at fair value: | | | | |
| Financial assets at FVOCI | 167,000 | – | – | 167,000 |
| Financial assets at FVTPL | 497,938,402 | – | – | 497,938,402 |
| Asset for which fair values are disclosed Mortgage and collateral loans | – | 1,749,697 | – | 1,749,697 |
| Debt securities at amortized cost | – | 4,383,065,931 | – | 4,383,065,931 |
| Property and equipment | – | – | 334,767,585 | 334,767,585 |
| | 498,105,402 | 4,384,815,628 | 334,767,585 | 5,217,688,615 |

| 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets measured at fair value: | 167,000 | – | – | 167,000 |
| Financial assets at FVOCI | | | | |
| Financial assets at FVTPL | 474,086,864 | – | – | 474,086,864 |
| Asset for which fair values are disclosed | | | | |
| Mortgage and collateral loans | – | 3,814,783 | – | 3,814,783 |
| Debt securities at amortized cost | – | 4,524,733,193 | – | 4,524,733,193 |

| | | | | |
|---|---|---|---|---|
| Property and equipment | – | – | 336,333,384 | 336,333,384 |
| | 474,253,864 | 4,528,547,976 | 336,333,384 | 5,339,135,224 |

There were no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement in 2022 and 2021.

**25.4 Financial risk**

The Company is exposed to financial risk through its financial assets, financial liabilities, insurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements

***25.4.1 Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- Net exposure limits are set for each counterparty or group of counterparties and industry segment (i.e. limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held).
- Guidelines are provided to determine when to obtain collateral and guarantees.
- The maximum amounts and limits that may be advanced to corporate counterparties by reference to their long-term credit ratings are also set.
- Loans to benefit certificate holders are offset against the surrender value of benefit certificates and carry substantially no credit risk.

The Company also enters into reinsurance agreements. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its benefit certificate holders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements.

The Company selects only domestic and foreign companies with strong financial standing and with excellent track records to participate in the Company's reinsurance programs.

As at December 31, 2022 and 2021, the carrying values of the Company's financial instruments represent maximum exposure as of reporting date.

The gross maximum exposure to credit risk of the Company approximates its net maximum exposure. There were no amounts that are set-off in accordance with the requirement of PAS 32. There were no amounts subject to an enforceable master netting arrangements or similar arrangements as at December 31, 2022 and 2021.

Exposure to credit losses on benefit certificate loans is not significant as the cash surrender value of the benefit certificate loans serves as the collateral to these loans. Benefit certificate loans are not approved in excess of its cash surrender value.

In respect of investment securities, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer. The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long-term ratings.

The table below shows the maximum exposure to credit risk as at December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | 467,772,476 | 339,057,832 |
| Short-term investments | 173,936,567 | 5,102,091 |
| Insurance receivables | 21,117,521 | 20,281,330 |
| Financial assets at amortized cost | 5,117,572,089 | 5,274,476,445 |
| | 5,780,398,653 | 5,638,917,698 |

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties as at December 31 (in thousands of PHP).

| | Neither past due nor impaired | | | |
|---|---|---|---|---|
| 2022 | Investment grade | Non-investment grade | Past due or impaired | Total |
| Financial assets at amortized cost Cash in bank and cash equivalents | 467,772 | – | – | 467,772 |
| Short-term investment | 173,937 | – | – | 173,937 |
| Insurance receivables | 21,118 | – | – | 21,118 |
| Benefit certificate loans | – | 615,345 | – | 615,345 |
| Long-term deposits | 87,650 | – | – | 87,650 |
| Mortgage and collateral loans | 1,750 | – | – | 1,750 |
| Due from related parties | 2,037 | – | – | 2,037 |
| Other receivables | – | 18,548 | 18,373 | 36,921 |
| Accrued income | 35,181 | – | – | 35,181 |
| Dividend receivable | 3,479 | – | – | 3,479 |
| Financial assets at amortized cost (Debt securities) | | | | |
| Government bonds | 1,010,376 | – | 1,269 | 1,011,645 |
| Corporate bonds | 2,645,430 | – | 288 | 2,645,718 |
| Retail treasury bonds | 476,700 | – | – | 476,700 |
| ROP bonds | 200,560 | – | – | 200,560 |
| Government securities with IC | 50,000 | – | – | 50,000 |
| | 5,175,990 | 633,893 | 19,930 | 5,829,813 |

| 2021 | Neither past due nor impaired: Investment grade | Non-investment grade | Past due or impaired | Total |
|---|---|---|---|---|
| Financial assets at amortized cost | | | | |
| Cash in bank and cash equivalents | 339,058 | – | – | 339,058 |
| Short-term investment | 5,102 | | | 5,102 |
| Insurance receivables | 20,281 | – | – | 20,281 |
| Benefit certificate loans | – | 586,487 | – | 586,487 |
| Long-term deposits | 130,174 | – | – | 130,174 |
| Mortgage and collateral loans | – | 3,815 | – | 3,815 |
| Due from related parties | 1,810 | – | – | 1,810 |
| Other receivables | – | 21,080 | 17,552 | 38,632 |
| Accrued income | 38,151 | – | – | 38,151 |
| Dividend receivable | 3,298 | – | – | 3,298 |
| Financial assets at amortized cost (Debt securities) | | | | |
| Government bonds | 1,254,459 | – | 1,733 | 1,256,192 |
| Corporate bonds | 2,595,403 | – | 6,017 | 2,601,420 |
| Retail treasury bonds | 431,104 | – | 596 | 431,700 |
| ROP bonds | 185,165 | – | 256 | 185,421 |
| Government securities with IC | 49,931 | – | 69 | 50,000 |
| | 5,053,936 | 611,382 | 26,223 | 5,691,541 |

The Company determines the credit ratings of its counterparties based on the following criteria:

Investment grade - Ratings given to counterparties with strong to very strong capacity to meet its obligations.

Non-investment grade financial assets are assets which are vulnerable to impairment due to the assets' significant speculative characteristics. Adverse economic conditions will likely impair non-investment grade financial assets.

Cash and cash equivalents, short-term deposits, and long-term deposits are deposited to commercial banks in good financial standing and covered by the standard deposit insurance. As part of Company's policy, bank deposits are only maintained with reputable financial institutions.

Financial assets at amortized cost (debt securities) consist mostly of government and corporate issued bonds. Loans and receivables are composed significantly of benefit certificate loans to policyholders, which are 100% secured by earned cash values, net of outstanding premiums and due from cedants.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty or group of counterparty, and to geographical and line of risk segments. The policy of the Company is to deal only with creditworthy counterparties.

### *25.4.2 Liquidity risk*

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or the counterparty failing on repayment of a contractual obligation; or the insurance liabilities falling due for payment earlier than expected; or the inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the daily calls on its available cash resources with respect to claims arising from insurance contracts and operating expenses.

The Company manages liquidity by forecasting cash flow requirements. Investments are made in assets with maturities or interest payments which are matched against expected payouts of claims benefits (i.e., amount and duration of assets are matched against amount and duration of liabilities). In addition, significant outflows due to operating expenses (e.g., salaries, bonuses, IT expenditures, etc.) are scheduled based on an agreed budget timeline. It is unusual for a Company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities with respect to insurance liabilities are thus based on management’s best estimates based on statistical techniques and past experience.

The table shows the maturity profile of the Company’s financial instruments that are used to manage liquidity and other financial liabilities based on contractual receipts and payments as at December 31 (in thousands of PHP).

| **2022** | Up to a year* | 1-3 years | 3-5 years | Over 5 years | No maturity date | Total |
|---|---|---|---|---|---|---|
| Financial assets: | | | | | | |
| At amortized cost | | | | | | |
| Cash and cash equivalents | 468,380 | – | – | – | – | 468,380 |
| Short-term investments | 173,937 | – | – | – | – | 173,937 |
| Insurance receivables | 21,118 | – | – | – | – | 21,118 |
| Benefit certificate loans | 615,345 | – | – | – | – | 615,345 |
| Long-term investments | – | 87,650 | | | | 87,650 |
| Mortgage and collateral loans | 238 | 529 | 608 | 375 | – | 1,750 |
| Due from related parties | 2,037 | – | – | – | – | 2,037 |
| Other receivables | 38,921 | – | – | – | – | 38,921 |
| Accrued income | 38,660 | – | – | – | – | 38,660 |
| At FVTPL | | | | | | |
| Preferred shares | – | – | – | – | 424,628 | 424,628 |
| Common shares | – | – | – | – | 73,310 | 73,310 |
| At amortized cost | | | | | | |
| Government bonds | 230,495 | 346,068 | 50,918 | 382,895 | | 1,010,376 |
| Corporate bonds | 322,450 | 878,600 | 892,050 | 552,330 | – | 2,645,430 |
| Retail treasury bonds | 286,700 | – | 140,000 | 50,000 | – | 476,700 |
| ROP bonds | – | 138,556 | 33,838 | 28,166 | – | 200,560 |
| Government securities with IC | – | – | 20,000 | 30,000 | – | 50,000 |
| At FVOCI | | | | | | |
| Club shares | – | – | – | – | 167 | 167 |
| Total financial assets | 2.198.281 | 1.451.403 | 1.137.414 | 1.043.766 | 498.105 | 6.328.969 |
| | | | | | | |
| Financial liabilities | | | | | | |
| Other financial liabilities | | | | | | |
| Claims payable | 160,390 | – | – | – | – | 160,390 |
| Other investment contract liabilities | 236,657 | – | – | – | – | 236,657 |
| Other insurance contract liabilities | 3,935 | – | – | – | – | 3,935 |
| Member’s participation payable | 122,932 | – | – | – | – | 122,932 |
| Accounts payable and other liabilities | | | | | | |
| Accounts payable | 107,170 | – | – | – | – | 107,170 |
| Accrued expenses | 16,847 | – | – | – | – | 16,847 |
| Advance contribution payment | 11,039 | – | – | – | – | 11,039 |
| Contribution deposits | 10,013 | – | – | – | – | 10,013 |
| Unearned interest on benefit certificate loans | 27,927 | – | – | – | – | 27,927 |
| Due to reinsurers | 565 | – | – | – | – | 565 |
| Others | 11,649 | – | – | – | – | 11,649 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total financial liabilities | 709,124 | – | – | – | – | 709,124 |
| Liquidity position | 1,489,157 | 1,451,403 | 1,137,414 | 1,043,766 | 498,105 | 5,619,845 |

* Up to a year are all commitments which are either due within the time frame or are payable on demand.

| 2021 | Up to a year* | 1-3 years | 3-5 years | Over 5 | No maturity date | Total |
|---|---|---|---|---|---|---|
| years Financial assets: | | | | | | |
| At amortized cost | | | | | | |
| Cash and cash equivalents | 339,128 | – | – | – | – | 339,128 |
| Short-term investments | 5,102 | – | – | – | – | 5,102 |
| Insurance receivables | 20,281 | – | – | – | – | 20,281 |
| Benefit certificate loans | 586,487 | – | – | – | – | 586,487 |
| Long-term investments | – | 130,174 | – | – | – | 130,174 |
| Mortgage and collateral loans | 1,057 | 1,185 | 1,573 | – | – | 3,815 |
| Due from related parties | 1,810 | – | – | – | – | 1,810 |
| Other receivables | 38,632 | – | – | – | – | 38,632 |
| Accrued income | 41,449 | – | – | – | – | 41,449 |
| At FVTPL | | | | | | |
| Preferred shares | – | – | – | – | 474,087 | 474,087 |
| Common shares | – | – | – | – | – | – |
| At amortized cost | | | | | | |
| Government bonds | 286,155 | 193,311 | 393,365 | 383,362 | – | 1,256,193 |
| Corporate bonds | 465,951 | 321,704 | 1,267,332 | 546,433 | – | 2,601,420 |
| Retail treasury bonds | 25,608 | 386,122 | 19,970 | – | – | 431,700 |
| ROP bonds | – | 55,377 | 94,094 | 35,950 | – | 185,421 |
| Government securities with IC | – | – | – | 50,000 | – | 50,000 |
| At FVOCI | | | | | | – |
| Club shares | – | – | – | – | 167 | 167 |
| Total financial assets | 1,811,660 | 1,087,873 | 1,776,334 | 1,015,745 | 474,254 | 6,165,866 |
| Financial liabilities: | | | | | | |
| Other financial liabilities | | | | | | |
| Claims payable | 191,855 | – | – | – | – | 191,855 |
| Other investment contract liabilities | 246,826 | – | – | – | – | 246,826 |
| Other insurance contract liabilities | 3,650 | – | – | – | – | 3,650 |
| Member's participation payable | 127,940 | – | – | – | – | 127,940 |
| Accounts payable and other liabilities | | | | | | |
| Accounts payable | 126,004 | – | – | – | – | 126,004 |
| Accrued expenses | 15,552 | – | – | – | – | 15,552 |
| Advance contribution payment | 7,931 | – | – | – | – | 7,931 |
| Contribution deposits | 12,648 | – | – | – | – | 12,648 |
| Unearned interest on benefit certificate loans | 26,400 | – | – | – | – | 26,400 |
| Due to reinsurers | 357 | – | – | – | – | 357 |
| Others | 5,466 | – | – | – | – | 5,466 |
| Total financial liabilities | 764,629 | – | – | – | – | 764,629 |
| Liquidity position | 1,047,031 | 1,087,621 | 1,776,334 | 1,015,674 | 474,254 | 5,401,237 |

* Up to a year are all commitments which are either due within the time frame or are payable on demand.

The Company believes that cash generated from its operating activities and its portfolio of financial assets is sufficient to meet currently maturing obligations required to operate the business.

### *25.4.3 Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of three types of risks: foreign exchange rates (currency risk), market interest rates (fair value and cash flow interest rate risks) and market prices (equity price risk).

The following policies and procedures are in place to mitigate the Company's exposure to market risk:

- Set out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment; and
- Establish asset allocation and portfolio limit structure, to ensure that assets back specific benefit certificate holders' liabilities and that assets are held to deliver income and gains for benefit certificate holders which are in line with expectations of the benefit certificate holders.

### *25.4.4 Currency risk*

The Company's principal transactions are carried out in Philippine Peso and its foreign exchange risk arises primarily with respect to US Dollar, in which some of its investments and products are denominated. The Company's financial assets are primarily denominated in the same currencies as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than in which the insurance contracts are expected to be settled. The following table shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents as of December 31.

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | US$ | PHP | US$ | PHP |
| **Assets** | | | | |
| Cash and cash equivalents | 227,816 | 12,701,901 | 383,291 | 19,547,463 |
| Financial assets at amortized cost | 5,368,645 | 299,328,790 | 5,459,981 | 278,453,567 |
| | 5,596,461 | 312,030,691 | 5,843,272 | 298,001,030 |
| **Liabilities** | | | | |
| Legal policy reserves | 3,215,868 | 179,300,703 | 3,204,006 | 163,401,116 |
| Members' participation payable | 8,400 | 468,358 | 8,480 | 432,463 |
| Claims payable | 340,443 | 18,981,399 | 432,116 | 22,037,495 |
| Accounts payable and other liabilities | 46,676 | 2,602,408 | 47,009 | 2,397,421 |
| | 3,611,387 | 201,352,868 | 3,691,611 | 188,268,495 |
| **Net dollar assets** | 1,985,074 | 110,677,823 | 2,151,661 | 109,732,535 |

*The exchange rate used is P55.755 to US$1 in 2022 and P50.999 to US$1 in 2021.*

The analysis below is performed for reasonably possible movements in Peso-US Dollar exchange rates with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities) for the years ended December 31.

| Effect on excess of revenue over expenses before tax | 2022 | 2021 |
|---|---|---|
| Change in variables | | |
| +/-1.00% | +/-11,067,782 | +/-1,097,350 |

The Company determined the reasonably possible change in foreign exchange rates using percentage changes in year-end closing rate for the past two years. The sensitivity analysis includes only outstanding foreign currency denominated monetary assets and liabilities as at reporting date.

There is no impact on the Company's equity other than those already affecting profit or loss.

Details of the Company's net foreign exchange gain, net, for the years ended December 31 follow:

| | 2022 | 2021 |
|---|---|---|
| Unrealized foreign exchange loss, net | (17,279,354) | (10,888,295) |
| Realized foreign exchange gain, net | 42,807,931 | 22,717,181 |
| | 25,528,577 | 11,828,886 |

### *25.4.5 Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise. The Company's investment portfolio is exposed to market risk depending on the nature of underlying securities. For example, a bond fund which is comprised mainly of debt securities are primarily exposed to interest rate risk, while an equity fund is exposed to price risk.

The Company's government securities, corporate debts at amortized cost and other financial assets and liabilities bear fixed interest rates, hence, not subject to significant cash flow and fair value interest rate risk.

The Company does not have government securities and corporate debts at FVTPL; hence, not subject to fair value interest rate risk.

### *25.4.6 Equity price risk*

The Company's equity price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, FVTPL and FVOCI financial assets. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The analysis below is performed for reasonably possible movements in price index with all other variables held constant, showing the impact on OCI (that reflects adjustments on changes in fair value of FVOCI financial assets). The impact of sensitivity of equity prices on the Company's OCI already excludes the impact on transactions affecting profit or loss for the years ended December 31.

| | Change in price index | Impact on net worth |
|---|---|---|
| 2022 | +/-5.00% | +/- 24,896,920 |
| 2021 | +/-5.30% | +/-25,125,411 |

The expected equity price change is arrived at using the reasonable possible change of PSEi year-on-year and the specific adjusted beta of each stock the Company holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

## Note 26 - Capital management

### 26.1 Capital management framework

The Company manages its capital through its compliance with the statutory requirements on Margin of Solvency (MOS), minimum paid-up capital and minimum net worth. The Company is also complying with the statutory regulations on Risk-based Capital (RBC) to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, insurance contribution and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items.

Thus, the target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

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

On April 4, 2021, the Company's BOT approved the appropriation of its surplus for COVID-related contingencies amounting to P5,000,000. Subsequently, on April 28, 2022, the Company's BOT approved the reversal of the appropriation.

### 26.2 Regulatory framework

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

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

Externally-imposed capital requirements are set and regulated by the IC. These requirements are put in place to ensure that the Company remains financially viable to pay its short and long-term liabilities.

*Guaranty fund*

As a mutual benefit Company, the IC also requires the Company to possess a guaranty fund of P12.50 million. This minimum amount shall be maintained at all times. The Company has a guaranty fund consisting of government securities amounting to P50,000,000 as of December 31, 2022 and 2021.

*Margin of solvency*

Under the Code, a life insurance Company doing business in the Philippines shall maintain at all times a MOS equal to P500,000 or P2 per thousand of the total amount of its insurance in force as of the preceding calendar year on all benefit certificates, except term insurance, whichever is higher. The MOS shall be the excess of the value of its admitted assets (as defined under the Code), exclusive of paid-up capital, over the amount of its liabilities, unearned premiums and reinsurance reserves. The estimated amounts of the Company's non-admitted assets, as defined in the Code, are included in the accompanying statements of financial position. These assets, which are subject to final determination by the IC as at December 31, are as follows:

| | 2022 | 2021 |
|---|---|---|
| Property and equipment | 7,565,838 | 7,640,459 |
| Accounts receivable and other assets | 39,686,354 | 25,231,138 |
| | 47,252,192 | 32,871,597 |

The Company exclusively writes life benefit certificates, hence, has only minimal MOS requirement of P500,000 to which it complies.

The final amount of the MOS can only be determined after the accounts of the Company have been examined by the IC, particularly with respect to the determination of admitted and non-admitted assets as defined under the Code.

If an insurance Company failed to meet the minimum required MOS, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such Company until its authority is restored by the IC.

As at December 31, the surplus available for MOS for the Company follows:

| | 2022 | 2021 |
|---|---|---|
| Admitted assets | 7,100,833,530 | 6,888,817,870 |
| Admitted liabilities | 5,859,455,706 | 5,671,985,086 |
| Net worth | 1,241,377,824 | 1,216,832,784 |
| Less unappropriated surplus | 918,412,877 | 894,889,070 |
| Surplus available for MOS | 322,964,947 | 321,943,714 |

*Fixed Capitalization Requirement*

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

| Compliance date | Networth |
|---|---|
| June 30, 2013 | 250,000,000 |
| December 31 ,2018 | 550,000,000 |
| December 31, 2019 | 900,000,000 |
| December 31, 2022 | 1,300,000,000 |

The above new capitalization requirements is not applicable to the Company since it is a mutual benefit association.

### 26.3 Risk-based Capital Requirements (RBC2)

In 2016, the IC issued Circular Letter No. 2016-68, Amended Risk-Based Capital (RBC2) Framework, pursuant to Section 437 of the Amended Insurance Code. The RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 Capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis (e.g. Capital Stock, Statutory Deposit, Capital Stock Subscribed, Contributed Surplus, etc.). Tier 2 Capital does not have the same high-quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer [e.g. Reserve for Appraisal Increment - Property and Equipment, Remeasurement Gains (Losses) on Retirement Pension Asset (Obligation), etc.]. Tier 2 Capital shall not exceed 50% of Tier 1 Capital.

The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test.

IC Circular Letter No. 2016-69, Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework, provides that the level of sufficiency for the RBC2 Framework shall be at 95% level in 2017, 97.50% in 2018 and 99.50% in 2019.

The following shows how the RBC was determined as at December 31:

| | 2022 | 2021 |
|---|---|---|
| Member's Equity/Net worth | 1,241,377,824 | 1,216,832,783 |
| RBC requirement | 567,928,186 | 643,163,095 |
| RBC ratio | 218.58% | 189.20% |

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

## Note 27 - Summary of significant accounting and financial reporting policies

### 27.1 Basis of preparation

The accompanying separate financial statements of the Company have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI), and retirement plan assets that have been measured at fair value, and land, building and improvements which have been measured at revalued amounts. The Company's financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency, and all values are rounded to the nearest Philippine Peso unit, unless otherwise indicated.

### 27.2 Statement of compliance

The financial statements of the ROHQ have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). 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) which have been approved by the Financial and Sustainability Reporting Standards Council (FSRSC) (formerly known as the Financial Reporting Standards Council) and adopted by the SEC.

The Company also prepares and issues consolidated financial statements for the same period as the Company's financial statements presented in accordance with PFRS. These may be obtained at the Company's registered office address as indicated in Note 1.

**27.3 Amendments to existing standards adopted by the Company**

The Company has adopted the following amendments to existing standards effective January 1, 2022:

- Amendments to PAS 16, 'Property, Plant and Equipment' *(effective January 1, 2022)*

  The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling the items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

- Amendment to PAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' *(effective January 1, 2022)*

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

- Annual Improvements to PFRSs 2018-2020 *(effective January 1, 2022)*

  The following improvements were finalized in May 2020:

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

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

There are no other new standards, amendments to existing standards or interpretations which are effective beginning on January 1, 2022 that are considered relevant on the financial statements of the Company.

**27.4 Standards issued but not yet effective**

The following relevant new accounting standards and interpretations are not mandatory for the December 31, 2022 reporting period and has not been early adopted by the Company:

- Amendments to PAS 1, 'Classification of Liabilities as Current or Non-current' *(effective January 1, 2024)*

  The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendment also clarifies what PAS 1 means when it refers to the 'settlement' of a liability.

- Amendment to PAS 1 and PFRS Practice Statement 2, 'Disclosure of Accounting Policies' *(effective January 1, 2023)*

  The amendment requires entities to disclose their material rather than their significant accounting policies. The amendment defines what is a 'material accounting policy information' and explain how to identify when accounting policy information is material. It further clarifies that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

- Amendments to PAS 8, 'Definition of Accounting Estimates' *(effective January 1, 2023)*

  The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

- PFRS 17, 'Insurance Contracts' *(effective January 1, 2025)*

  PFRS 17 was issued in May 2017 as replacement for PFRS 4, "Insurance Contracts". PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9, "Financial instruments." An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

  On March 17, 2020, the IASB has decided to further defer the effective date of the standard to annual reporting periods beginning on or after January 1, 2023. Taking into consideration the implications of the pandemic, the IC recognizes that the insurance industry has to realign its priority programs and focus on modifying its business operations under the new normal. The IC sees the need to support the insurance industry and hence, it delays full implementation of the standard to January 1, 2025, two (2) years after IASB's implementation in 2023. The IC, in coordination with industry associations, is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach. The Company is still assessing the impact as at December 31, 2022.

There are no other new standards, amendments to existing standards or interpretations effective subsequent to December 31, 2022 that are expected to be relevant or to have a material impact on the financial statements of the Company.

## 27.5 Summary of significant accounting policies

### *27.5.1 Product classification*

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the benefit certificate holders) by agreeing to compensate the benefit certificate holders if a specified uncertain future event (the insured event) adversely affects the benefit certificate holders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Insurance contracts are classified with and without discretionary participation feature (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are (a) likely to be a significant portion of the total contractual benefits, (b) whose amount or timing is contractually at the discretion of the issuer, and (c) that are contractually based on the performance of a specified pool of contracts or a specified type of contract, (ii) realized and/or unrealized investment returns on a specified pool of assets held by the issuer, or (iii) the revenue and expenses of the Company, fund or other entity that issues the contract.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign currency exchange rate, index of price or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract

### *27.5.2 Cash and cash equivalents; short-term investments*

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and that are subject to an insignificant risk of change in value. Short-term investments consist of time deposits maturing within one year are subject to an insignificant risk of change in value.

### *27.5.3 Insurance receivables*

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration paid plus incremental cost. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Company statement of income. Insurance receivables are derecognized following the derecognition criteria of financial assets.

### *27.5.4 Financial instruments*

*(i) Initial recognition and measurement*

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, FVOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of loans and receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Loans and receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price.

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

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

*(ii) Subsequent measurement*

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

- Financial assets at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through profit or loss

*(iii) Financial assets at FVOCI (equity instruments)*

Upon initial recognition, the Company can elect to classify irrevocably its equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, Financial Instruments: Presentation, and are not held for trading. The classification is determined on an instrument-by-instrument basis. Changes in fair value is recognized in OCI and accumulated as part of "Other reserves" in the net worth section of the Company statement of financial position. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the Company statement of income when right of payment has been established, except when the Company benefit from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

As at December 31, 2022 and 2021, the Company's financial assets at FVOCI pertains to club shares.

*(iv) Financial assets at amortized cost (debt instruments)*

The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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 SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes cash and cash equivalents, short-term and long-term investments, insurance receivables, loans and receivables, accrued income, government bonds, corporate bonds, retail treasury bonds, Republic of the Philippines (ROP) bonds and other government securities with the IC.

*(v) Financial assets at FVTPL*

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the Company statements of financial position at fair value with net changes in fair value recognized in the Company statements of income. This category includes listed equity securities held by Company.

Income earned on these equity investments is reported in the Company statements of income under "Dividend income".
As at December 31, 2022 and 2021, the Company's financial assets at FVTPL pertains to preferred and common shared in listed equity securities.

*(vi) Reclassification*

Once the initial classification has been determined, PFRS 9 provides guidance on when an entity should reclassify a (group of) financial instrument(s).

PFRS 9 establishes that, if cash flows are realized in a way that is different from the entity's expectations at the date that management assessed the business model, this fact does not give rise to a prior period error in the entity's financial statements (in accordance with PAS 8).

Reclassifications should be accounted for only when an entity changes its business model for managing financial assets. Changes to the business model are expected to be infrequent; the change is determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and should be evident to external parties. A change in an entity's business model will occur when an entity either begins or ceases to perform an activity that is significant to its operations.

Reclassifications should be accounted for prospectively from the reclassification date. An entity should not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

*(vii) Impairment*

Expected credit loss (ECL) represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

The Company records ECL for all loans and receivables and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

The Company's cash and cash equivalents, short term investments and investments in bonds are rated as investment grade by the global rating agency. Accordingly, these investments are considered to be low credit risk investments. The ECL calculation is based on historical loss experience adjusted for current conditions and forecasts of future economic conditions using reasonable and supportable information available as of the reporting date. The Company applied simplified approach in calculating ECL on these investments and does not track changes in credit risk but instead recognizes an allowance based on lifetime ECL at each reporting period.

*(viii) Staging assessment*

A three-stage approach for impairment of financial assets is used, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognized.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all financial instruments which have not experienced a Significant Increase in Credit Risk (SICR) since initial recognition or is considered of low credit risk as of the reporting date. The Company recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all financial instruments which have experienced a SICR since initial recognition. The Company recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Stage 3 is comprised of all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Company recognizes a lifetime ECL for Stage 3 financial instruments.

*(ix) Definition of "default"*

- The Company defines a financial instrument as in default when it is credit impaired or becomes past due on its contractual payments for more than 90 days. As part of a qualitative assessment of whether a customer is in default, the Company considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. restored) if there is sufficient evidence to support that full collection is probable and payments are received for at least six months.

The Company assesses the impairment of financial assets based on a forward-looking ECL model. The ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. This applies to financial assets measured at amortized cost or at FVOCI.

*(x) Significant increase in credit risk*

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if based on the Company's aging information, the customer becomes past due over 90 days. In subsequent periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Company shall revert to recognizing a 12-month ECL.

*(xi) ECL parameters and methodologies*

ECL is a function of the probability of default (PD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD is an estimate of the likelihood of default over a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Company segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

*(xii) Forward-looking factors*

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

*(xiii) Financial liabilities*

Financial liabilities are classified into financial liabilities at FVTPL and other financial liabilities. The category depends on the purpose for which the liabilities were incurred and whether they are quoted in an active market. Management determines the category of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. The Company does not have financial liabilities at FVTPL.

Financial liabilities at amortized cost are contractual obligations which are either to deliver cash or another financial asset to another entity to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company.

The Company's financial liabilities at amortized cost include claims payable, other investment contract liabilities, other insurance contract liabilities, member's participation payable and accounts and other liabilities (other than liabilities covered by the other accounting standards, such as pension liability and government and statutory liabilities).

The Company recognizes a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Financial liabilities at amortized cost are recognized when the Company becomes a party to the contractual provision of the instruments. Financial liabilities at amortized cost are initially measured at fair value plus transaction costs.

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

After initial measurement, the Company's financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortised 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 method. The amortisation is included as "Interest expense" in the statement of income.

*(xiv) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the Company statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle, on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting arrangements, thus, the related assets and liabilities are presented on a gross basis in the Company statements of financial position. There were no financial instruments which were offset as at December 31, 2022 and 2021.

*(xv) Derecognition of financial assets and liabilities*

*Financial assets*

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

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

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

*Financial liabilities*

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

### *27.5.5 Benefit certificate loans*

Benefit certificate loans are initially measured at fair value plus transaction cost and subsequently carried at amortized cost using effective interest method which approximates their unpaid balance. These are fully secured with the cash surrender value of the benefit certificate serving as collateral. Interest earned from these loans is at 10% to 11% and 8% per annum on Peso and US Dollar denominated loans, respectively.

### *27.5.6 Fair value measurement*

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

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

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

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

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

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

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

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

For assets and liabilities that are recognized in the Company's financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by reassessing 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 the purpose 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.

### *27.5.7 Reinsurance*

Contracts entered into by the Company with reinsurers, which compensate the Company for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are classified as insurance contracts. Income from reinsurance contracts are classified within “Reinsurers’ share of gross earned contribution on insurance contracts” in the Company statements of income.

The benefits recoverable by the Company under its reinsurance contracts are recognized as reinsurance assets. These assets consist of amounts due from reinsurers classified within “Insurance receivables” account in the Company statements of financial position. Due to reinsurers for reinsurance contracts are recognized as an expense upon recognition of premiums on the related insurance contract, classified within “Accounts payable and other liabilities” account in the Company statements of financial position. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with terms of each reinsurance contract.

The Company assesses its reinsurance assets for impairment at lease annually. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes impairment loss in profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for financial assets.

Gains or losses on buying reinsurance, if any, are recognized in Company statements of income immediately at the date of purchase and are not amortized.

Ceded reinsurance arrangements do not relieve the Company from its obligations to benefit certificate holders.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or has expired or when the contract is transferred to another party.

### *27.5.8 Investments in subsidiaries*

Subsidiary is an entity controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Investment in a subsidiary is carried at cost less any impairment in value in the Company’s financial statements. Distributions from accumulated profits of the investee are recognized as dividend income from the investments.

### *27.5.9 Property and equipment*

Property and equipment are measured at cost, net of accumulated depreciation and amortization and any impairment loss, except for land which is measured at fair value, and buildings and improvements which are measured at fair value less accumulated depreciation and amortization and any impairment loss.

The initial cost of property and equipment consists of its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operations, such as repairs and maintenance, are normally charged against Company statement of income in the period in which 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.

Following initial recognition at cost, land and buildings and improvements are carried at revalued amounts which are the fair values at the date of the revaluation, as determined by an independent firm of appraisers, less any subsequent accumulated depreciation and amortization (on buildings and improvements) and accumulated impairment loss. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Revaluations are performed normally every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Depreciation and amortization are computed on a straight-line basis over the estimated useful life (EUL) of the respective assets. Leasehold improvements are amortized over the shorter of the related lease terms or their EUL. The EUL and depreciation and amortization method are reviewed periodically to ensure that the period and method are consistent with the expected pattern of economic benefits from items of property and equipment.

The EUL of property and equipment follow:

| Category | Years |
|---|---|
| Buildings and building improvements | 5-40 |
| Transportation equipment | 5 |
| Leasehold improvements | 5 |
| Office and building equipment | 3-5 |
| Furniture and fixtures | 5 |

Any revaluation increment is credited to the revaluation increment on property and equipment in OCI and accumulated as part of "Other reserves" in the net worth section of the Company statement of financial position. Decreases in valuation is charged to profit or loss, except to the extent that it reverses the existing accumulated revaluation increment on the same asset and therefore such decrease is recognized in OCI. The decrease recognized in OCI reduces the other reserves. In case a subsequent revaluation increase of an asset reverses a revaluation decrease previously recognized in profit or loss, such increase is credited to income in profit or loss.

An annual transfer from the revaluation increment on property to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the asset's original cost. Upon disposal, any revaluation increment on property relating to the particular asset being sold is transferred to unappropriated surplus.

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

### *27.5.10 Impairment of nonfinancial assets*

The Company assesses at each reporting date whether there is an indication that nonfinancial assets such as property and equipment and investment in subsidiaries may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For nonfinancial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in Company statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

### *27.5.11 Insurance contract liabilities*

*Life insurance contract liabilities*

Life insurance contract liabilities are recognized when the contracts are entered into and the insurance contributions are recognized. The reserve for life benefit certificates is calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend on the circumstances prevailing in each life operation. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by Insurance Commission (IC). The insurance contract liabilities for life benefit certificates is measured using the Net Premium Valuation (NPV).

*Insurance contracts with fixed and guaranteed terms*

The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical insurance contributions that would be required to meet the benefits based on the valuation assumptions used. The liability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued.

The Company has different assumptions for different products. However, liabilities for contractual benefits are computed to comply with statutory requirements, which require discount rates not to be more than 6.0% compound interest and mortality and morbidity rates to be in accordance with the standard table of mortality. Reserves are computed per thousand of sum insured and depend on the issue age and benefit certificate duration.

*Legal policy reserves*

Legal policy reserves are determined by the Company's actuary in accordance with the requirements of the Code and represent the amounts which, together with future premiums and investment income, are required to discharge the obligations of the benefit certificates. These reserves are determined using generally accepted actuarial practices and have been approved by the IC at the product approval stage.

*Claims provision and Incurred But Not Reported (IBNR) Losses*

These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period together with related claims handling costs and reduction for the expected value of other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR losses. The liability is derecognized when the contract is discharged, cancelled or has expired.

*Investment contracts*

When contracts contain both financial risk and insurance risk components and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premium relating to the insurance risk component are accounted for on the same bases as insurance contracts and the remaining element is accounted for as a deposit in the Company statement of financial position.

*Liability adequacy test*

Liability adequacy tests are performed annually to ensure the adequacy of the benefit certificates liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against Company statement of income initially by establishing a provision for losses arising from the liability adequacy tests.

### *27.5.12 Members' participation payable*

Discretionary participation feature (DPF) is a contractual right that gives benefit certificate holders the right to receive supplementary discretionary returns through participation in the surplus arising from participating business. These returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the benefit certificate.

Participation of benefit certificate holders during the year is taken to profit or loss. Amount not yet paid to the members as of reporting date is presented as "Member's Participation Payable."

### *27.5.13 Unappropriated surplus*

Unappropriated surplus represents accumulated earnings of the Company less dividends declared.

### *27.5.14 Provisions*

Provisions are recognized when: (a) the Company has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in Company statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

### *27.5.15 Retirement cost*

The Company has a funded, non-contributory retirement plan, administered by a trustee, covering its regular employees. Retirement cost is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Defined retirement costs comprise of the following:

(a) Service costs
(b) Net interest on the net defined benefit liability or asset
(c) Remeasurements of net defined benefit liability or asset

Service costs which include current service cost, past service cost and gains or losses on non-routine settlements are recognized as expense in Company statement of income. Past service cost is recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses and return on plan assets (excluding net interest on defined benefit liability) are recognized immediately in OCI under "Actuarial gain (loss) on defined benefit plan" in the period in which they arise and accumulated as part of "Other reserves" in the net worth section of the Company statement of financial position. Remeasurements are not recycled to Company statement of income in subsequent periods.

### *27.5.16 Revenue recognition*

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be measured reliably. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or as an agent. The Company has concluded that it is acting as principal in all of its revenue agreements. The following specific recognition criteria must also be met before revenue is recognized:

*Insurance contributions earned*

Revenue is recognized upon collection of insurance contributions of effective insurance policies and upon due date of uncollected insurance contributions, excluding the insurance contributions received for flexible and college savings plan (CSP) annuity, which is recognized as part of "Other investment contract liabilities" in the Company statements of financial position.

*Interest income*

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

Final tax on interest income is presented as provision for final tax in the Company statement of income.

*Dividend income*

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

*Other income*

Other income is recognized once it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

***27.5.17 Benefits, claims and expenses recognition***

*Benefits and claims*

Benefits and claims consist of benefits and claims paid to benefit certificate holders as well as changes in the valuation of benefit certificates liabilities and reserve for benefit certificate holders' participation. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

*General and administrative expenses*

Operating expenses constitute cost of administering the business. These are recognized as expense when incurred.

*Commission expense and other underwriting expenses*

Commissions are recognized when the benefit certificates are issued and the insurance contributions are recognized.

*Interest expense*

Interest expense on accumulated benefit certificate holders' dividends, liabilities for supplementary contracts and insurance contribution deposit fund is recognized in profit or loss as it accrues and is calculated by using the EIR method.

### *27.5.18 Foreign currency translation*

*Functional and presentation currency*

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

*Transactions and balances*

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to the statement of income, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income, the gain or loss is then recognized net of the exchange component in other comprehensive income.

### *27.5.19 Contingencies*

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

### *27.5.20 Events after the reporting date*

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

### *27.5.21 Comparatives*

Certain comparative amounts have been restated to conform to current year presentation.

## Note 28 - Supplementary information required under revenue regulations 34-2020 and 15-2010

In compliance with Revenue Regulations (RR) 15-2010, issued by the BIR on November 25, 2010, the following presents information on taxes and license fees paid or accrued for the year ended December 31, 2022:

*(i) Value-Added Tax (VAT)*

The Company has no output and input VAT as it is a non-VAT registered Company.

*(ii) Other taxes and licenses*

The Company reported and/or paid the following taxes and licenses in 2022:

| | Amount |
|---|---|
| Registration fee | 6,390 |
| License and permits fees | 722,694 |
| Fringe benefits taxes | 305,112 |
| Others | 18,774 |
| | 1,052,970 |

The Company is exempt from payment of percentage tax and documentary stamp tax on insurance premiums collected.

*(iii) Withholding taxes*

Details of withholding taxes during the year follow:

| | Paid | Accrued | Total |
|---|---|---|---|
| Withholding taxes on compensation benefits | 6,345,227 | 696,748 | 7,041,975 |
| Expanded withholding taxes | 4,270,812 | 551,989 | 4,822,801 |
| Final withholding taxes | 305,112 | 7,124 | 312,236 |
| | 10,921,151 | 1,255,861 | 12,177,012 |

*(iv) Tax assessments and cases*

The Company has no ongoing tax assessments as of December 31, 2022.

*(v) Revenue Regulations No. 34-2020*

The Company is not required to file the *Information Return on Transactions with Related Party* regardless of whether such taxpayer had dealings with a related party that falls under Section 2 of Revenue Regulations No. 34-2020, since as clarified by Revenue Memorandum Circular No. 54-2021, taxpayers exempt from payment of income tax are not covered by the requirement.

**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A Nonstock, Not-for-Profit Fraternal beneficiary Society)
Index to Financial Statements and Supplementary Schedules

## Supplementary Schedules

**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A Nonstock, Not-for-Profit Fraternal beneficiary Society)

**Supplementary Schedules of Sources of funds other than Contributions and Donations**
For the year ended December 31, 2022

| | |
|---|---|
| Maturity of placements | 1,423,483,749 |
| Contributions on insurance contracts | 895,752,473 |
| Investments and other income | 381,203,469 |
| Collections of receivables | 88,139,471 |
| Sale and disposal of assets | 135,000 |
| Other receipts | 163,287,103 |
| Total Receipts | 2,952,001,265 |

**Knights of Columbus Fraternal Association of the Philippines, Inc.**
(A Nonstock, Not-for-Profit Fraternal beneficiary Society)

Supplementary Schedule of Disbursements according to Sources and Activities
For the year ended December 31, 2022

| | |
|---|---|
| Placements of investments | 1,344,569,498 |
| Benefits paid | 602,955,388 |
| Loan releases | 177,410,897 |
| Operating expenses | 129,186,900 |
| Direct expenses | 80,382,757 |
| Purchase of assets | 7,225,238 |
| Other disbursements | 481,016,648 |
| Total disbursement | 2,822,749,326 |

# Knights of Columbus Fraternal Association of the Philippines, Inc. (KCFAPI)

*Established in 1958*

KofC Family ... Our Concern

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURN

The management of **KNIGHTS OF COLUMBUS FRATERNAL ASSOCIATION OF THE PHILIPPIÑES, INC.** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2022. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2022 and the accompanying Annual Income Tax Return are in accordance with the books and records of **KNIGHTS OF COLUMBUS FRATERNAL ASSOCIATION OF THE PHILIPPINES, INC.** complete and correct in material respects. Management likewise affirms that:

(a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;

(b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;

(c) the **KNIGHTS OF COLUMBUS FRATERNAL ASSOCIATION OF THE PHILIPPINES, INC.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

*JOSE C. REYES, JR.*
Chairman

*ANTHONY P. NAZARIO*
Executive Vice President

*ROWENA M. DIAPOLIT*
Vice President – Financial Reporting and Controls


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*Trustee*

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*Lead Independent Trustee*

ISAGANI B. MAGHIRANG
*Independent Trustee*

GABRIEL B. MUÑASQUE
*Independent Trustee*

FIEL M. PEDROSA
*Independent Trustee*

ANTHONY P. NAZARIO
*Executive Vice President*

MSGR. PEDRO C. QUITORIO III
*Spiritual Director*



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