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20. Cash Flow Reclassification

The Company reclassified proceeds from disposal and maturities, and acquisitions of financial assets at FVTPL amounting to P5.44 billion and P6.18 billion, respectively, for a net change in financial assets at FVTPL amounting to P731.43 million in 2020 from investing activity to operating activity to achieve a more appropriate and relevant presentation in the statement of cash flows considering the Company has significantly commenced primary business operations in 2021. The reclassification resulted to the increase in net cash flows from investing activities from net cash used of P733.99 million to P2.55 million and decrease in net cash flows from operating activities from net cash used of P158.55 million to P889.99 million in 2020.

21. Capital, Insurance and Financial Risk Management Objectives and Policies

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company level. 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 specific reporting requirements.

Regulatory Framework

The mandate of regulators is to protect the rights of the policyholders 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 are at acceptable levels.

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

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Capital Management Framework

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the regulators and the amount computed under the Amended RBC (RBC2) Framework. Since starting commercial operations, the Company has developed policies and processes for managing capital.

To ensure compliance with these externally imposed capital requirements, it is the Company's policy to assess its position, at least on a quarterly basis, against set minimum capital requirements. The Company elevates any requirement for additional capital infusion to shareholders to address any foreseen capital deficiency. It is anticipated that the Parent Company will support any other financing requirements and future developments of the Company.

Based on the Company's calculations, the Company fully complied with capital requirements during the reported financial periods and no changes made to its capital management objectives, policies and processes from the previous year.

Paid-up Capital Requirements

On August 15, 2013, the President of the Philippines approved Republic Act (R.A.) No. 10607 to be known as the "New Insurance Code" which prescribes that new domestic insurance companies shall possess at least a paid-up capital amounting to P1.00 billion for it to engage in business in the Philippines. The minimum paid-up capital shall remain unimpaired for the continuance of the license of the insurance companies. Moreover, Insurance Memorandum Circular (IMC) No. 22-2008 provided that for the purpose of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statements of financial position should show that the net worth or equity is at least equal to the actual paid-up capital.

As at December 31, 2021 and 2020, the Company has complied with the unimpaired capital requirement.

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Minimum Statutory Net Worth Requirements

On January 13, 2015, the IC issued CL No. 2015-02-A clarifying the minimum capitalization and net worth requirements of all insurance companies in the Philippines. All domestic life and non-life insurance companies duly licensed by the IC must have a net worth of at least P250.00 million by December 31, 2013 (Section 194). The minimum net worth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

Net Worth	Compliance Date
P550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

Net worth shall consist of paid-up capital, retained earnings, unimpaired surplus, and revaluation of assets as may be approved by the Insurance Commissioner. As at December 31, 2021 and 2020, the Company is fully compliant with the minimum statutory net worth requirements.

Amended RBC (RBC2) Framework

In December 2016, IC issued CL No. 2016-68 which supersedes all previously issued IC CL on RBC and shall be implemented effective January 1, 2017. The RBC2 Framework prescribes the minimum RBC Ratio and RBC Requirement that must be satisfied by all insurance companies. Under the RBC2 Framework, the RBC Ratio of an insurance company shall be equal to the Total Available Capital (TAC) divided by the RBC requirement. All insurance companies are required to maintain a minimum RBC Ratio of 100% and not fail the trend test. The RBC Requirement is defined under RBC2 Framework as the capital required to be held appropriately to the risks an insurance company is exposed to.

IC CL No. 2016-69, Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and RBC2 Framework, further states that the level of sufficiency for the RBC2 Framework shall be at 95.00% level in 2017, 97.50% in 2018 and 99.50% in 2019.

As at December 31, 2021, the Company is compliant with the minimum RBC Ratio and has passed the Trend Test based on the requirements of the IC CL No. 2016-69. The below table shows how the RBC ratio as at the reporting date was determined by the Company:

	2021	2020
Total available capital	**P1,052,233,738**	P1,139,460,474
RBC requirement	**45,870,233**	47,871,277
RBC Ratio	**2,294%**	2,380%

The final 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 Code.

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Insurance Risk

The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts 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 that are greater than those originally estimated, and subsequent development of long-term claims.

The Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for a pre-determined amount. 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 Risk*** – risk of loss arising from the policyholder's death experience being different than expected.
- ***Morbidity Risk*** – risk of loss arising from the policyholder's health experience being different than expected.
- ***Expense Risk*** – risk of loss arising from expense experience being different than expected.
- ***Policyholder Decision Risk*** – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

The Company's underwriting strategy is designed to ensure that risks are evaluated and rated appropriately. This is largely achieved through the use of health questionnaires and medical screening in order to ensure that pricing takes into account current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria.

Investment Risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of those future premium receipts may be at a yield below than that required to meet future policy liabilities.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality. The Company utilizes dynamic asset allocation strategies consistent with its risk appetite framework to manage investment risk and to ensure sustainable investment returns.

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Fair Value of Financial Instruments

The fair value of financial assets at FVTPL that are actively traded in organized financial markets are determined by reference to quoted market bid prices, at the close of business on the reporting date, or the last trading day as applicable.

Due to the short-term nature of cash and cash equivalents, receivables, refundable deposits, and accrued expenses and other liabilities, their fair values approximate their carrying amounts as at the reporting date.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

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

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments and for which observable market price exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free rate and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates and equity index prices and expected price volatiles and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset and paid to transfer the liability in and orderly transaction between market participants at the measurement date.

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As at December 31, 2021 and 2020, the Company classifies its financial assets at fair value as follows:

2021

	Carry Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:					
Government debt securities	**P764,442,282**	**P -**	**P764,442,282**	**P -**	**P764,442,282**
Corporate debt securities	**74,949,987**	**-**	**74,949,987**	**-**	**74,949,987**
UITFs/MFs	**49,753,169**	**-**	**49,753,169**	**-**	**49,753,169**
Equity securities	**40,363,267**	**40,363,267**	**-**	**-**	**40,363,267**
Convertible note	**16,504,297**	**-**	**-**	**16,504,297**	**16,504,297**
Preferred shares	**2,331,776**	**-**	**-**	**2,331,776**	**2,331,776**
Total	**P948,344,778**	**P40,363,267**	**P889,145,438**	**P18,836,073**	**P948,344,778**

2020

	Carry Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:					
Government debt securities	P928,699,006	P -	P928,699,006	P -	P928,699,006
UITFs/MFs	117,342,897	-	117,342,897	-	117,342,897
Equity securities	20,502,112	20,502,112	-	-	20,502,112
Corporate debt securities	4,878,183	-	4,878,183	-	4,878,183
Total	P1,071,422,198	P20,502,112	P1,050,920,086	P -	P1,071,422,198

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There has been no transfer between levels in 2021 and 2020.

The following table shows a reconciliation from beginning to ending balances for fair value measurements in Level 3 of the fair value hierarchy:

2021	Financial Assets at FVTPL	Financial Assets at FVTOCI	Total
Balance at beginning of year	P -	P -	P -
Additions	15,878,125	10,079,612	25,957,737
Unrealized gain (loss):			
Recognized in profit or loss	626,172	-	626,172
Recognized in other comprehensive loss	-	(7,747,836)	(7,747,836)
Balance at end of year	**P16,504,297**	**P2,331,776**	**P18,836,073**

Unrealized gain on financial assets at FVTPL was recognized as part of "Investment income"; and unrealized loss on financial assets at FVOCI was recognized under "Revaluation loss on financial assets at fair value through other comprehensive income".

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.

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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 Company manages the level of credit risk it accepts through a comprehensive credit risk policy which focuses on minimizing credit risk exposures. The credit risk policies are set as follows:

a. ***Concentration Limit*** – the Company sets maximum exposure to an individual issuer and to a particular sector.

b. ***Counterparty Ratings*** – the Company reviews and recommends financial institutions that will complement over-all investment objectives and service requirements.

Reporting of credit risk exposures, monitoring compliance with credit risk policy and review of credit risk policy is done on a regular basis.

The Company's holding of cash exposes the Company to credit risk of the counterparty. Credit risk management involves dealing only with institutions for which credit limits have been established. The treasury policy sets credit limit for each counterparty. In respect of investment securities, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single issuer or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer or group of issuers. 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.

As at December 31, 2021 and 2020, the Company's maximum exposure to credit risk from its financial assets (cash and cash equivalents, financial assets at FVTPL, and receivables) is equal to their carrying amounts. In addition, there is no significant concentration of credit risk identified.

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 criteria in PAS 32. There were no amounts subject to an enforceable master netting arrangement or similar agreement as at December 31, 2021 and 2020.

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As at December 31, 2021 and 2020, the credit quality per class of the Company's financial assets is as follows:

2021	Investment Grade	Non-investment Grade	Total
Financial Assets			
Cash and cash equivalents	P171,479,024	P -	P171,479,024
Insurance receivables	-	1,922,974	1,922,974
Financial assets at FVTPL	929,508,705	16,504,297	946,013,002
Financial assets at FVTOCI	-	2,331,776	2,331,776
Receivables	4,952,198	1,747,168	6,699,366
Refundable deposits	-	5,025,975	5,025,975
	P1,105,939,927	P27,532,190	P1,133,472,117

2020	Investment Grade	Non-investment Grade	Total
Financial Assets			
Cash and cash equivalents	P87,118,896	P -	P87,118,896
Financial assets at FVTPL	1,071,422,198	-	1,071,422,198
Receivables	6,470,833	128,948	6,599,781
Refundable deposits	-	2,333,977	2,333,977
	P1,165,011,927	P2,462,925	P1,167,474,852

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The Company uses a credit rating concept based on the borrowers' and counterparties' overall creditworthiness, as follows:

Investment Grade – rating given to counterparties who possess strong to very strong capacity to meet their obligations; and

Non-investment Grade – rating given to counterparties who possess above average capacity to meet their obligations.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as at December 31, 2021 and 2020.

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 a 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 in respect of claims arising from insurance contracts and operating expenses. The Company actively manages its liquidity position so as to ensure that all operating, investing and financing needs are met. In mitigating liquidity risk, management measures and forecasts its cash commitments and maintains and holds a sufficient level of cash reserves.

The tables below summarize the maturity profile of the Company's financial assets and financial liabilities based on contractual undiscounted payments as at December 31, 2021 and 2020, except for the legal policy reserves of the life insurance contracts which shows the maturity analysis based on the estimated timing of the net cash outflows using the recognized insurance liability accounts:

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Notes To Financial Statements

2021	Up to a Year*	1 - 3 Year	Over 3 Years	No Term	Total
Cash and cash equivalents	P171,479,024	P -	P -	P -	P171,479,024
Insurance receivables	1,922,974	-	-	-	1,922,974
Financial assets at FVTPL	442,100,000	255,620,000	188,680,000	90,116,436	976,516,436
Financial assets at FVTOCI	-	-	-	2,331,776	2,331,776
Receivables	6,699,366	-	-	-	6,699,366
Refundable deposits	5,025,975	-	-	-	5,025,975
Total financial assets	627,227,339	255,620,000	188,680,000	92,448,212	1,163,975,551
Insurance contract liabilities	33,885,723	-	-	-	33,885,723
Accrued expenses and other liabilities**	33,683,916	1,008,855	-	-	34,692,771
Total financial liabilities	67,569,639	1,008,855	-	-	68,578,494
Liquidity position	P559,657,700	P254,611,145	P188,680,000	P92,448,212	P1,095,397,057

2020	Up to a Year*	1 - 3 Year	Over 3 Years	No Term	Total
Cash and cash equivalents	P87,118,896	P -	P -	P -	P87,118,896
Financial assets at FVTPL	82,200,000	378,800,000	436,430,000	137,935,009	1,035,365,009
Receivables	7,025,757	-	-	-	7,025,757
Refundable deposits	2,333,977	-	-	-	2,333,977
Total financial assets	178,678,630	378,800,000	436,430,000	137,935,009	1,131,843,639
Insurance contract liabilities	5,693,495	-	-	-	5,693,495
Accrued expenses and other liabilities**	12,511,326	-	-	-	12,511,326
Total financial liabilities	18,204,821	-	-	-	18,204,821
Liquidity position	P160,473,809	P378,800,000	P436,430,000	P137,935,009	P1,113,638,818

*Up to a year are all commitments which are either due within the time frame or are payable on demand.
**Excludes statutory payables such as government agencies, local and national taxes and withholding taxes.

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Market Risk

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

Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions, and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company's foreign exchange risk results primarily from movements of the United States dollar (USD) against the Philippine peso (P).

These exposures arise mainly from cash and cash equivalents and advances from related party. The Company manages its foreign exchange risk through monitoring of transactions in foreign currencies and maintaining sufficient cash in foreign currencies to cover expenses and maturing obligations.

The Company's foreign currency-denominated monetary assets and liability are as follows:

	2021		2020	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Cash in banks	**$1,912,548**	**P97,538,053**	$282,784	P13,580,120
Cash equivalents	**-**	**-**	200,545	9,630,798
Financial assets at FVTPL	**323,620**	**16,504,296**	-	-
Financial assets at FVTOCI	**45,722**	**2,331,776**	-	-
Net foreign currency-denominated assets	**$2,281,890**	**P116,374,125**	$483,329	P23,210,918

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The balances have been restated based on the reference rate at P50.999 per USD and P48.023 per USD as at December 31, 2021 and 2020, respectively.

The Company recognized net foreign exchange gain of P6.70 million in 2021 and net foreign exchange loss of P0.14 million in 2020 arising from the revaluation of foreign currency-denominated monetary asset.

The net foreign exchange gain comprises of unrealized foreign exchange gain of P6.52 million in 2021 and unrealized foreign exchange loss amounting to P1.24 million in 2020, and realized foreign exchange gain of P0.17 million and P1.38 million in 2021 and 2020, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the USD to Php exchange rates, with all variables held constant, of the Company's income before tax for the years ended December 31, 2021 and 2020. There is no other impact on the Company's equity other than those already affecting profit or loss.

	Increase (Decrease) in Exchange Rate		**Effect on Income before Tax**	
	2021	**2020**	**2021**	**2020**
USD	**2.86%**	5.28%	**P3,334,082**	P1,225,341
	(2.86%)	(5.28%)	**(3,334,082)**	(1,225,341)

In 2021 and 2020, the Company used the average of changes in year-end closing rate for the past three years in determining the reasonably possible change in foreign exchange rates.

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Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate investments classified as financial assets at FVTPL are exposed to such risk. The following table shows the information relating to the Company's financial instruments that are exposed to fair value interest rate risk presented by maturity profile:

2021	Range of Interest Rate	Up to a Year*	1 - 3 Years	Over 3 Years	Total
Cash and cash equivalents	0.20%-1.10%	P171,479,024	P -	P -	P171,479,024
Financial assets at FVTPL:					
Government debt securities	2.38%-5.50%	440,217,046	198,864,308	125,360,928	764,442,282
Corporate debt securities	3.05%-5.10%	3,773,129	9,879,309	61,297,549	74,949,987
Total financial assets		P615,469,199	P208,743,617	P186,658,477	P1,010,871,293

2020	Range of Interest Rate	Up to a Year*	1 - 3 Years	Over 3 Years	Total
Cash and cash equivalents	0.20%-1.10%	P87,118,896	P -	P -	P87,118,896
Financial assets at FVTPL:					
Government debt securities	2.38%-5.50%	84,424,760	390,453,498	460,486,873	935,365,131
Corporate debt securities	3.05%-3.68%	-	4,878,183	-	4,878,183
Total financial assets		P171,543,656	P395,331,681	P460,486,873	P1,027,362,210

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The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit before tax due to changes in fair value of fixed rate financial assets at FVTPL.

	Increase (Decrease) in Exchange Rate		Effect on Income before Tax	
	2021	**2020**	**2021**	**2020**
Financial assets at FVTPL	**10%** **(10%)**	10% (10%)	**P83,939,227** **(83,939,227)**	P94,987,411 (94,987,411)

In 2021 and 2020, the Company determined the reasonably possible change in interest rates using the percentage changes in weighted average yield rates of outstanding securities for the past three years.

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, equity securities classified as financial assets at FVTPL. 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 the PSE index with all other variables held constant, showing the impact on profit before tax due to changes in fair value of equity securities classified as financial assets at FVTPL.

	Increase (Decrease) in PSE Index		Effect on Income before Tax	
	2021	**2020**	**2021**	**2020**
Financial assets at FVTPL	**2.56%** **(2.56%)**	13.31% (13.31%)	**P1,034,380** **(1,034,380)**	P18,346,909 (18,346,909)

In 2021 and 2020, the change in variable was derived from the percentage changes of the composite PSE index for the past three years.