P&A Grant Thornton

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# Financial Statements and Independent Auditors' Report

# Cocoplans, Inc.

## December 31, 2021 and 2020

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

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# Report of Independent Auditors

**The Board of Directors**
**Cocoplans, Inc.**
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
6807 Cocolife Building
Ayala Avenue, Makati City

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the financial statements of Cocoplans, Inc. (the Company), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive loss, statements of changes in capital deficiency and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

### *Basis for Opinion*

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

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 to the financial statements which provides relevant information on the status of operations of the Company. As indicated therein, the Company has deficit of P474.7 million and P265.5 million as at December 31, 2021 and 2020, respectively, as a result of operating losses incurred in current and previous years which indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. As at December 31, 2021 and 2020, the Company is already on a capital deficiency position at P62.7 million and P38.6 million, respectively. Moreover, the Company is no longer selling any pre-need plans since 2011 and only renders servicing to the existing planholders as approved by Insurance Commission on January 18, 2016. Also, as at December 31, 2021 and 2020, the Company was not able to comply with the required capitalization for pre-need companies and certain other requirements under Republic Act No. 9829, *the Pre-need Code of the Philippines*, and its Implementing Rules and Regulations such as reporting a trust fund deficiency of P159.7 million and P90.5 million as at December 31, 2021 and 2020, respectively. The Company's management, however, has been committed to continue the Company as a going concern in view of the positive developments and management plans. Further, the parent company has signed a letter of support to show its commitment to provide necessary funds to enable the Company to continue as a going concern. We have performed sufficient audit procedures to evaluate such management's representations. Accordingly, the financial statements were prepared assuming that the Company will continue as a going concern. Also, the financial statements do not include any adjustments on the recoverability and classification of the assets or the amounts and classification of liabilities arising from this uncertainty. Our opinion is not modified in respect of this matter.

### *Emphasis of Matter*

We draw attention to Note 1 to the financial statements, which describes management's assessment of the impact on the Company's financial statements of the business disruptions brought about by the COVID-19 pandemic. Our opinion is not modified in respect to this matter.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting standards in the Philippines for pre-need companies as described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

## Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2021 required by the Bureau of Internal Revenue as disclosed in Note 27 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with the financial reporting standards in the Philippines for pre-need companies as described in Note 2 to the financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

**By: Jerald M. Sanchez**
Partner

CPA Reg. No. 0121830
TIN 307-367-174
PTR No. 8852346, January 3, 2022, Makati City
SEC Group A Accreditation
Partner - No. 121830-SEC (until Dec. 31, 2023)
Firm - No. No. 0002 (until Dec. 31, 2024)
BIR AN 08-002551-041-2019 (until Dec. 15, 2022)
Firm’s BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 28, 2022

P&A Grant Thornton

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# Supplemental Statement of Independent Auditors

**The Board of Directors**
**Cocoplans, Inc.**
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
6807 Cocolife Building
Ayala Avenue, Makati City

We have audited the financial statements of Cocoplans, Inc. (the Company) for the year ended December 31, 2021, on which we have rendered the attached report dated April 28, 2022.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Company has only one stockholder owning 100 or more shares of the Company's capital stock as at December 31, 2021, as disclosed in Note 23 to the financial statements.

**PUNONGBAYAN & ARAULLO**

**By: Jerald M. Sanchez**
Partner

CPA Reg. No. 0121830
TIN 307-367-174
PTR No. 8852346, January 3, 2022, Makati City
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April 28, 2022

Certified Public Accountants
Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd.

Offices in Cavite, Cebu, Davao
BOA/ PRC Cert of Reg. No. 0002
SEC Accreditation No. 0002

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**COCOPLANS, INC.**

***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***

**STATEMENTS OF FINANCIAL POSITION**

**DECEMBER 31, 2021 AND 2020**

***(Amounts in Philippine Pesos)***

| | Notes | 2021 | 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 7 | **P 85,314,839** | P 67,988,961 |
| Receivables - net | 8 | **132,874,073** | 148,624,726 |
| Memorial lot inventories | 9 | **50,348,831** | 57,241,974 |
| Other current assets | 10 | **4,918,569** | 4,405,992 |
| Total Current Assets | | **273,456,312** | 278,261,653 |
| **NON-CURRENT ASSETS** | | | |
| Restricted cash - memorial care fund | 15 | **51,476,490** | 33,392,921 |
| Investments in trust funds | 11 | **543,944,728** | 569,988,792 |
| Insurance premium funds | 14 | **53,104,443** | 52,476,948 |
| Investment securities at amortized cost | 10 | **48,899,089** | - |
| Property and equipment - net | 12 | **6,732,776** | 5,355,270 |
| Right-of-use assets - net | 13 | **836,804** | 1,587,026 |
| Retirement benefit asset | 21 | **2,191,571** | - |
| Deferred tax assets - net | 22 | **4,646,881** | 5,933,931 |
| Total Non-current Assets | | **711,832,782** | 668,734,888 |
| **TOTAL ASSETS** | | **P 985,289,094** | P 946,996,541 |
| **LIABILITIES AND CAPITAL DEFICIENCY** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 15 | **P 316,551,332** | P 292,190,359 |
| Lease liabilities | 13 | **680,141** | 777,114 |
| Total Current Liabilities | | **317,231,473** | 292,967,473 |
| **NON-CURRENT LIABILITIES** | | | |
| Pre-need reserves | 16 | **703,646,419** | 660,475,534 |
| Insurance premium reserves | 17 | **24,304,365** | 25,338,331 |
| Bond reserves | 2 | **2,377,120** | 1,975,404 |
| Lease liabilities | 13 | **417,279** | 1,026,216 |
| Retirement benefit obligation | 21 | **-** | 3,824,774 |
| Total Non-current Liabilities | | **730,745,183** | 692,640,259 |
| Total Liabilities | | **1,047,976,656** | 985,607,732 |
| **CAPITAL DEFICIENCY** | | | |
| Capital stock | 23 | **100,000,000** | 100,000,000 |
| Additional paid-in capital | 23 | **324,598,468** | 148,786,586 |
| Revaluation reserves | 11, 21, 22 | **( 12,614,852 )** | ( 21,945,191 ) |
| Deficit | 11, 23 | **( 474,671,178 )** | ( 265,452,586 ) |
| Net Capital Deficiency | | **( 62,687,562 )** | ( 38,611,191 ) |
| **TOTAL LIABILITIES AND CAPITAL DEFICIENCY** | | **P 985,289,094** | P 946,996,541 |

***See Notes to Financial Statements.***

**COCOPLANS, INC.**
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
**STATEMENTS OF COMPREHENSIVE LOSS**
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**
***(Amounts in Philippine Pesos)***

| | Notes | 2021 | 2020 |
|---|---|---|---|
| **REVENUES** | 18 | | |
| Sale of memorial lots | | P 49,975,846 | P 35,288,029 |
| Sale of columbary vaults | | 3,080,357 | 6,019,339 |
| Premiums | | 240,489 | 255,764 |
| Other revenues | | 23,369,382 | 19,343,749 |
| | | 76,666,074 | 60,906,881 |
| **COSTS AND EXPENSES** | | | |
| Direct cost and expenses | 19, 20 | 271,069,322 | 184,630,895 |
| General and administrative expenses | 20 | 28,215,875 | 25,744,513 |
| | | 299,285,197 | 210,375,408 |
| **OPERATING LOSS** | | ( 222,619,123 ) | ( 149,468,527 ) |
| **OTHER INCOME (CHARGES)** | | | |
| Finance income | 7, 8, 10, 14, 15 | 14,048,232 | 11,677,018 |
| Trust fund income | 11 | 610,286 | 7,029,421 |
| Finance cost | 13 | ( 205,465 ) | ( 221,905 ) |
| | | 14,453,053 | 18,484,534 |
| **LOSS BEFORE TAX** | | ( 208,166,070 ) | ( 130,983,993 ) |
| **TAX INCOME (EXPENSE)** | 22 | ( 1,052,522 ) | 50,357 |
| **NET LOSS** | | ( 209,218,592 ) | ( 130,933,636 ) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Remeasurement of retirement benefit plan | 21 | 768,692 | ( 1,003,923 ) |
| Fair value gains on financial assets at fair value through other comprehensive income (FVOCI) - equity securities | 11 | 196,914 | 1,582,331 |
| Tax income (expense) | 22 | ( 309,166 ) | 301,177 |
| | | 656,440 | 879,585 |
| **Item that will be reclassified to profit or loss** | | | |
| Fair value gains (losses) on financial assets at FVOCI - debt securities | 11 | 8,673,899 | ( 7,563,961 ) |
| **Other Comprehensive Income (Loss)** - Net of Tax | | 9,330,339 | ( 6,684,376 ) |
| **TOTAL COMPREHENSIVE LOSS** | | ( P 199,888,253 ) | ( P 137,618,012 ) |

***See Notes to Financial Statements.***

**COCOPLANS, INC.**
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
**STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY**
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**
***(Amounts in Philippine Pesos)***

| | Notes | Capital Stock | Additional Paid-in Capital | Revaluation Reserves | Deficit – Appropriated | Deficit – Unappropriated | Deficit – Net | Net Capital Deficiency |
|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2021 | | P 100,000,000 | P 148,786,586 | ( P 21,945,191 ) | P 2,418,916,936 | ( P 2,684,369,522 ) | ( P 265,452,586 ) | ( P 38,611,191 ) |
| Appropriation of trust fund income | 11, 23 | - | - | - | 610,286 | ( 610,286 ) | - | - |
| Capital infusion | 23 | - | 175,811,882 | - | - | - | - | 175,811,882 |
| Total comprehensive gain (loss) for the year | 11, 21, 22 | - | - | 9,330,339 | - | ( 209,218,592 ) | ( 209,218,592 ) | ( 199,888,253 ) |
| Balance at December 31, 2021 | | **P 100,000,000** | **P 324,598,468** | **( P 12,614,852 )** | **P 2,419,527,222** | **( P 2,894,198,400 )** | **( P 474,671,178 )** | **( P 62,687,562 )** |
| Balance at January 1, 2020 | | P 100,000,000 | P 79,027,277 | ( P 15,260,815 ) | P 2,411,887,515 | ( P 2,546,406,465 ) | ( P 134,518,950 ) | P 29,247,512 |
| Appropriation of trust fund income | 11, 23 | - | - | - | 7,029,421 | ( 7,029,421 ) | - | - |
| Capital infusion | 23 | - | 69,759,309 | - | - | - | - | 69,759,309 |
| Total comprehensive loss for the year | 11, 21, 22 | - | - | ( 6,684,376 ) | - | ( 130,933,636 ) | ( 130,933,636 ) | ( 137,618,012 ) |
| Balance at December 31, 2020 | | P 100,000,000 | P 148,786,586 | ( P 21,945,191 ) | P 2,418,916,936 | ( P 2,684,369,522 ) | ( P 265,452,586 ) | ( P 38,611,191 ) |

***See Notes to Financial Statements.***

**COCOPLANS, INC.**

***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

***(Amounts in Philippine Pesos)***

| | Notes | 2021 | 2020 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss before tax | | **( P 208,166,070 )** | ( P 130,983,993 ) |
| Adjustments for: | | | |
| Finance income | 7, 8, 10, 14, 15 | **( 14,048,232 )** | ( 11,677,018 ) |
| Depreciation and amortization | 12, 13, 20 | **2,158,871** | 2,277,095 |
| Trust fund income | 11 | **( 610,286 )** | ( 7,029,421 ) |
| Finance cost | 13 | **205,465** | 221,905 |
| Gain on disposal of property and equipment | 12, 18 | **-** | ( 236,952 ) |
| Operating loss before working capital changes | | **( 220,460,252 )** | ( 147,428,384 ) |
| Decrease (increase) in receivables | | **18,614,456** | ( 19,963,699 ) |
| Decrease in memorial lot inventories | | **6,893,143** | 4,738,249 |
| Increase in restricted cash - memorial care fund | | **( 18,083,569 )** | ( 1,716,920 ) |
| Decrease (increase) in other current assets | | **( 355,811 )** | 238,415 |
| Increase in trade and other payables | | **24,360,973** | 32,085,412 |
| Increase (decrease) in pre-need reserves | | **43,170,885** | ( 53,551,283 ) |
| Decrease in insurance premium reserves | | **( 1,033,966 )** | ( 1,628,227 ) |
| Increase in bond reserves | | **401,716** | 404,326 |
| Increase (decrease) in retirement benefit obligation/asset | | **( 5,247,653 )** | 572,330 |
| Cash used in operations | | **( 151,740,078 )** | ( 186,249,781 ) |
| Interest received | 7, 8, 10, 14, 15 | **14,048,232** | 11,677,018 |
| Cash paid for income taxes | | **( 231,404 )** | ( 73,880 ) |
| Net Cash Used in Operating Activities | | **( 137,923,250 )** | ( 174,646,643 ) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Withdrawals from the trust funds | 11 | **164,150,731** | 196,880,518 |
| Additional contributions to the trust funds | 11 | **( 131,489,371 )** | ( 72,244,617 ) |
| Acquisitions of investment securities at amortized cost | 10 | **( 48,899,089 )** | - |
| Acquisitions of property and equipment | 12 | **( 2,786,155 )** | ( 597,699 ) |
| Net contributions to insurance premium funds | 14 | **( 627,495 )** | ( 2,821,791 ) |
| Proceeds from sale of property and equipment | 12 | **-** | 276,751 |
| Net Cash From (Used in) Investing Activities | | **( 19,651,379 )** | 121,493,162 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from capital infusions | 23 | **175,811,882** | 69,759,309 |
| Payments of lease liabilities | 13 | **( 911,375 )** | ( 899,563 ) |
| Net Cash From Financing Activities | | **174,900,507** | 68,859,746 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **17,325,878** | 15,706,265 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **67,988,961** | 52,282,696 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **P 85,314,839** | P 67,988,961 |

***See Notes to Financial Statements.***

**COCOPLANS, INC.**
***(A Wholly Owned Subsidiary of United Coconut Planters Life Assurance Corporation)***
**NOTES TO FINANCIAL STATEMENTS**
**DECEMBER 31, 2021 AND 2020**
***(Amounts in Philippine Pesos)***

## 1. GENERAL INFORMATION

### *1.1 Incorporation and Operations*

Cocoplans, Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on July 5, 1993. The Company was established primarily to invest and reinvest in, sell, negotiate, transfer and otherwise acquire and dispose life, educational assistance, pension, retirement income, or retirement plans with all the requisites and services, merchandise or articles necessary or relevant to such securities and services to be delivered in the future to the purchasers, subscribers, planholders and enrollees.

The Company is a wholly owned subsidiary of United Coconut Planters Life Assurance Corporation (Cocolife or the parent company). The registered office address of the Company and Cocolife, which is also their principal place of business, is located at 6807 Cocolife Building, Ayala Avenue, Makati City.

On January 18, 2016, the Company was granted by the Insurance Commission (IC) a license to act as a pre-need servicing company; hence, the Company was advised that:

*(i)* the shift to servicing-only mode bars the Company from selling the outstanding unsold approved life plans;

*(ii)* the Company shall continue to make monthly deposit contribution as referenced in Section 31, *Distribution of Profits*, of the Republic Act (R.A.) No. 9829, *the Pre-need Code of the Philippines* (the Pre-need Code); and,

*(iii)* except for the payment of the cost of benefits or services, the termination values payable to plan holders and other costs necessary to ensure the delivery of benefits or services to planholders, no withdrawal shall be made from the trust funds, unless approved by the IC pursuant to Section 30, *Consequences of Delay or Default*, of the Pre-need Code.

Moreover, as a servicing entity, the Company's business transactions are confined to accepting contract price from its policyholders, granting direct planholders loans, reinstatement of lapsed pre-need plan, paying or settling claims arising under its pre-need plan coverage and such other related services.

### *1.2 Pre-need Code of the Philippines*

On December 3, 2009, the President of the Philippines signed into law the Pre-need Code. The Pre-need Code has set out that pre-need companies shall be under the primary and exclusive supervision and regulation of the IC and vested the IC among others, the powers and functions to:

(i) approve, amend, renew or deny any license, registration or certificate issued;

(ii) regulate, supervise and monitor the operations and management of pre-need companies;

(iii) take over pre-need companies which fail to comply with the Pre-need Code, related laws, rules, regulations and orders issued through the Pre-need Code; and,

(iv) formulate policies and recommendations on issues concerning the pre-need industry, including proposed legislations.

### *1.3 Status of Operations*

The Company has been consistently incurring operating losses that indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. As of December 31, 2021 and 2020, the Company has deficit of P474.7 million and P265.5 million, respectively, resulting from the operating losses incurred in current and previous years. As of December 31, 2021 and 2020, the Company is already on a capital deficiency position at P62.7 million and P38.6 million, respectively. Losses incurred during the current year are attributable to the cost of contracts issued brought about by the withdrawal of plan maturities and pre-maturities. Moreover, the Company is no longer selling any pre-need plans since 2011, and only renders servicing to the existing planholders. As such, premium revenues recognized in 2021 and 2020 pertain to collections from existing pre-need policies. Also, as of December 31, 2021 and 2020, the Company was not able to comply with the required capitalization for pre-need companies and certain other requirements under the Pre-need Code and its Implementing Rules and Regulations such as reporting a trust fund deficiency of P159.7 million and P90.5 million as of December 31, 2021 and 2020, respectively (see Note 16). Nonetheless, the financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that may result from the outcome of this uncertainty in view of the following positive developments and management plans/programs to enable the Company to continue as a going concern:

- the Company now focused its revenue generating effort on the sale of memorial lots and columbary vaults, which generated total revenue of P53.1 million and P41.3 million in 2021 and 2020, respectively (see Note 18);

- the Company revisited its basis for agent commission and implemented system improvements including, but not limited, to a more aggressive recruitment and marketing strategies in selling memorial lots and columbary vaults;

- the Company closed its non-operating branches to minimize incurrence of costs necessary to maintain such; and,

- the parent company continues to support the Company's efforts, especially on its upcoming memorial projects and existing investments, and has signed a letter of support to show its commitment to provide necessary funds to enable the Company to continue as a going concern.

### *1.4 Continuing Impact of Coronavirus Disease (COVID-19) Pandemic on the Company's Business*

The Company and other Philippine businesses have been significantly exposed to the risks brought about by the outbreak of the COVID-19, which the Company's management has determined such circumstance to adversely affect the health, safety, logistics and productivity of its employees and impede other operational aspects of the Company. Relative to this, in addition to protocols required by the Philippine Government, the Company has implemented measures to mitigate the transmission of COVID-19, such as restricting and limiting domestic business travels, making hand sanitizers available within its properties, increasing the frequency of disinfection of facilities, limiting face-to-face meetings, requiring temperature checks for employees and customers, and implementing health protocols for employees.

Also, the Company experienced delays in the collection of receivables from its customers. Furthermore, the continuous weakening of the local stock market greatly affects the Company and its industry. The economic slowdown and significant volatility of the stock market resulted in significant decline in the fair value of the Company's equity and debt securities portfolio.

### *1.5 Approval of Financial Statements*

The financial statements of the Company as of and for the year ended December 31, 2021 (including the comparative financial statements as of and for the year ended December 31, 2020) were authorized for issue by the Company's Board of Directors (BOD) on April 28, 2022.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

### *2.1 Basis of Preparation of Financial Statements*

*(a) Statement of Compliance with Financial Reporting Standards in the Philippines for Pre-need Companies*

The financial statements of the Company have been prepared in accordance with the financial reporting standards in the Philippines for pre-need companies which include Philippine Financial Reporting Standards (PFRS), and the guidelines in determining reserves and liabilities relating to pension, educational and life plans and contracts and financial statements presentation using the Pre-need Uniform Chart of Accounts (PNUCA) as required previously by the SEC, and now adopted and required by the IC. PFRS is adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

*(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements,* and PNUCA. The Company presents all items of income, expenses and other comprehensive income (loss) in a single statement of comprehensive loss.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, except when allowed in the transitional guidelines by a standard, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

*(c) Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

### *2.2 Adoption of Amended PFRS*

*(a) Effective in 2021 that are Relevant to the Company*

The Company adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2021:

| | | |
|---|---|---|
| PFRS 9, PFRS 7, and PFRS 16 (Amendments) | : | Financial Instruments, Financial Instruments: Disclosure, Leases – Interest Rate Benchmark Reform Phase 2 |
| PFRS 16 (Amendments) | : | Leases – COVID-19-Related Rent Concessions beyond June 30, 2021 |

Discussed below are the relevant information about these pronouncements.

(i) PFRS 9 (Amendments), *Financial Instruments*, PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 16 (Amendments), *Leases – Interest Rate Benchmark Reform Phase 2*. The amendments address issues that may affect financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate (LIBOR) with alternative benchmark rates. The Phase 2 amendments have no impact to the Company's financial statements as the Company did not have any financial instruments subject to LIBOR.

(ii) The Company opted to early adopt the application of the amendments to PFRS 16, *Leases – COVID-19-Related Rent Concessions beyond June 30, 2021*, which is effective from April 1, 2021. The amendment extends for one year the use of practical expedient of not assessing whether rent concessions reducing payments up until June 30, 2022 occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The application of these amendments had no impact to the Company's financial statements as the Company did not receive any rent concession from its lessors in 2021.

*(b) Effective Subsequent to 2021 but not Adopted Early*

There are amendments and annual improvements to existing standards effective for annual periods subsequent to 2021, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022)

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022)

(iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Company:

- PFRS 9 (Amendments), Financial Instruments – *Fees in the '10 per cent' Test for Derecognition of Liabilities*

- Illustrative Examples Accompanying PFRS 16 – *Lease Incentives*

(iv) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)

(v) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)

(vi) PAS 8 (*Amendments*), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)

(vii) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

## *2.3 Financial Instruments*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual terms of the financial instrument.

*(a) Financial Assets*

For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

*(i) Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below.

*Financial Assets at Amortized Cost*

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

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any allowance for expected credit loss (ECL).

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Receivables, Other Current Assets (with respect to Refundable deposits), Restricted Cash - Memorial Care Fund, Investments in Trust Funds (with respect to Cash and cash equivalents, Debt securities at amortized cost, and Loans and receivables), and Insurance Premium Funds (with respect to Restricted cash - insurance premium fund, Due from parent company – La Loma, and Planholders' loan).

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized as Finance Income under Other Income section of the statement of comprehensive loss.

*Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)*

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as financial assets at FVOCI; however, such designation is not permitted if the equity investment is held by the Company for trading or as mandatorily required to be classified as fair value through profit or loss (FVTPL). The Company has designated certain equity instruments under its trust funds as financial assets at FVOCI on initial recognition.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive loss, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Deficit account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Any dividends earned on holding equity instruments are recognized in the profit or loss section of the statement of comprehensive loss as part of Trust Fund Income, when the Company's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Company, and, the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

Interest earned on debt instruments is presented as part of Trust Fund Income in the profit or loss section of the statement of comprehensive loss.

*Financial Assets at FVTPL*

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Company designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Company's financial assets at FVTPL include debt and equity securities under its trust fund which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized as part of Finance Income under profit or loss section of the statement of comprehensive loss. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on debt instruments is presented as part of Trust Fund Income in the profit or loss section of the statement of comprehensive loss.

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

A change in the objective of the Company's business model will take effect only at the beginning of the next reporting period following the change in the business model.

*(ii) Impairment of Financial Assets*

At the end of the reporting period, the Company assesses and recognizes allowance for ECL on its financial assets measured at amortized cost and debt instruments measured at FVOCI. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at the reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectability of the future cash flows of the financial assets. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

The Company recognizes lifetime ECL for installment contract receivables and other receivables included under Receivables account. The ECL on these assets are estimated by applying the simplified approach using a provision matrix developed based on the Company's historical credit loss experience and credit information that are specific to the debtors, adjusted for general economic conditions and an assessment of both the current as well as the forecast direction of economic conditions at the reporting date, including time value of money where appropriate. These assets are assessed for impairment on a collective basis based on shared credit risk characteristics.

For debt instruments measured at FVOCI and at amortized cost, the allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial asset, in such case, a lifetime ECL is applied wherein, the allowance for credit losses is based on the change in the ECL over the life of the asset. The Company recognized a loss allowance for such losses at each reporting date.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

The Company recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments measured at FVOCI, for which the loss allowance is recognizes in other comprehensive income and accumulated in Revaluation Reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

*(iii) Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

*(b) Financial Liabilities*

Financial liabilities of the Company, which include trade and other payables [except value-added tax (VAT) payable and other tax-related payables], trust fees payable and accounts payable - others (presented as part of Investments in Trust Funds), bond reserves, and lease liabilities, are recognized when the Company becomes a party to the contractual terms of the instrument. Except for lease liabilities (see Note 2.11), these financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest method for those with maturities beyond one year, less settlement payments.

Bond reserves represents 5.00% of agents' commission which is refundable to agents or duly designated trustee beneficiary, net of outstanding obligations to the Company such as advances or loans upon voluntary or involuntary termination of the agency arrangement. These are recognized upon issuance of plans.

Finance charges are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

*(c) Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

### *2.4 Memorial Lot Inventories and Inventories Held in Trust Fund*

Memorial lot inventories and inventories held in trust fund are carried at the lower of cost or net realizable value (NRV). Cost includes all costs of construction, costs for the subdivision of the property into memorial park lots and other expenses directly attributable to the development and improvement of the memorial lots.

NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

### *2.5 Other Current Assets*

Other current assets, other than those classified as financial assets, pertain to other resources controlled by the Company as a result of past events for which future economic benefits are expected to flow to the Company within one year after the end of the reporting period. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.12).

### *2.6 Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Office furniture and equipment | 5 years |
| Transportation equipment | 5 years |
| Computer equipment | 3 to 5 years |

Leasehold improvements are amortized over five years or over the term of the lease, whichever is shorter.

The residual values, estimated useful lives and method of depreciation of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

### *2.7 Investment Properties Held in Trust Fund*

Investment property held in trust fund is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property held in trust fund is accounted for under the fair value model. It is revalued annually and is reported at its fair value. Fair value is supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property (see Note 6).

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

### *2.8 Provisions and Contingencies*

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### *2.9 Pre-need Reserves (PNR), Insurance Premium Reserves (IPR) and Other Reserves*

PNR are recognized for all pre-need benefits guaranteed and payable by the Company as defined in the pre-need pension, education and life plan contracts. PNR for pension, education and life plans are determined using the requirements on provisioning of PAS 37 and the specific method of computation required by the IC as described below.

The amount recognized as a provision to cover the PNR is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision.

PNR is computed based on the following considerations:

i. On Actively Paying Plans

   Provision is equivalent to the present value of future plan benefits reduced by the present value of future trust fund contributions required per product model discounted using the transitory discount rate which does not exceed the lower of the attainable rate as certified by the Trustee, and the discount interest rate prescribed by the IC in accordance with the IC Circular Letter No. 23-2012, *Valuation of Transitory Pre-need Reserves,* for old basket of plans previously approved by the SEC.

ii. On Lapsed Plans

   Provision is equivalent to the present value of future plan benefits reduced by the present value of future trust fund contributions at lapse date, multiplied by the reinstatement rate.

iii. On Fully Paid Plans

   Provision is equivalent to the present value of future plan benefits discounted using the rate prescribed by the IC starting 2012.

iv. Future events that may affect the foregoing amounts are reflected in the amount of the provision for PNR where there is sufficient objective evidence that they will occur.

v. The rates of surrender, cancellation, reinstatement, utilization, and inflation, when applied, represent the actual experience of the Company in the last three years, or the industry, in the absence of a reliable experience.

vi. The probability of pre-termination or surrender of fully paid plans are considered in determining the PNR of fully paid plans. A pre-termination experience on fully paid plans of 5% and below are considered insignificant. In such cases, derecognition of liability shall be recorded at pre-termination date.

The computation of the foregoing assumptions is validated and certified by the IC-accredited actuary of the Company.

Any excess in the amount of the trust fund as a result of the revised reserve requirement shall neither be released from the fund nor be credited/set-off to future required contributions.

The Company also sets up other provisions in accordance with PAS 37 to cover its obligations such as IPR presented in the statement of financial position. The IPR is the present value of all insurance premiums payable to the insurance company. Similar to PNR, the calculation uses the same actuarial assumptions and considers the portion of the future installments allotted for insurance expenses, except for the insurance premium rates used in the computation of IPR for Group Yearly Renewable Term and Accidental Death & Dismemberment.

### *2.10 Revenue and Expense Recognition*

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Company for goods sold and services rendered, excluding VAT and discounts.

To determine whether to recognize revenue, the Company follows a five-step process:

*(a)* identifying the contract with a customer;
*(b)* identifying the performance obligation;
*(c)* determining the transaction price;
*(d)* allocating the transaction price to the performance obligations; and,
*(e)* recognizing revenue when/as performance obligations are satisfied.

The Company determines whether a contract with customer exists by evaluating whether the following gating criteria are present:

(i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
(iii) the payment terms for the goods or services to be transferred or performed can be identified;
(iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
(v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer.
The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
(ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(iii) the Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control over the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

In addition, the following specific recognition criteria, that are within the scope of PFRS 15, *Revenue from Contracts with Customers*, must also be met before revenue is recognized [significant judgments in determining the timing of satisfaction of the following performance obligations are disclosed in Note 3.1(b)]:

*(a)* *Sale of Memorial Lots and Columbary Vaults* – Revenue and cost from completed projects are accounted for using the full accrual method and the revenue is recognized at a point in time. Control over the memorial lot is transferred upon reaching 20% of collections from customers, otherwise, it is presented as Customer Deposits in the statement of financial position. For tax reporting purposes, revenue is recognized in full when at least 25% of the selling price is collected within the taxable year; otherwise, the installment method is applied.

*(b)* *Other Revenues* – Revenues from marketing income, forfeitures, processing fees, interment fees and other income is recognized over time and on an output basis, generally when the services have been rendered. Invoices are due upon receipt by the customer. Marketing income is recognized upon sale of memorial lots owned by Cocogen Insurance, Inc. (Cocogen), an entity under common control by the parent company, the parent company and the Trust Banking Group of United Coconut Planters Bank (UCPB Trust).

In addition, the Company has revenues arising from its pre-need contracts recognized based on PNUCA as required by the IC and trust fund income.

*(a)* *Premiums* – Premiums from sale of pre-need plans are recognized as earned when collected inclusive of advance premium payments. When premiums are recognized as income, the related cost of contracts is computed and recognized such that the benefits and expenses are matched with such revenue.

*(b)* *Trust Fund Income* – Income is recognized based on the following:

- Gain (loss) from changes in fair value of financial assets classified as FVTPL is recognized when there is a change in the market value of the financial assets at FVTPL.

- Gain (loss) on sale of financial assets is recognized when the ownership of the securities is transferred to the buyer at an amount equal to the excess or deficiency of the selling price over the carrying amount of securities.

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

- Interest income is recognized as the interest accrued taking into account the effective yield on the asset.

Income generated by the trust fund is included in the Investments in Trust Funds account in the statement of financial position and credited to Trust Fund Income in the statement of comprehensive loss. The trust fund income is restricted and cannot be distributed as dividends (see Note 2.15). It is not, therefore, part of the Company's disbursable operating receipts.

Other costs and expenses are recognized in profit or loss upon utilization of services or at the date they are incurred. All finance costs are reported in profit or loss on accrual basis.

### *2.11 Leases – Company as Lessee*

For any new contracts entered into, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.12).

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from all other assets and liabilities, respectively.

### *2.12 Impairment of Non-financial Assets*

The Company's property and equipment, right-of-use assets and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. As a result, assets are tested for impairment either individually or at the cash-generating unit (CGU) level.

Impairment loss is recognized for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value-in-use. In determining value-in-use, management estimates the expected future cash flows from each CGU and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each CGU and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

### *2.13 Employee Benefits*

The Company provides post-employment benefits to employees through a defined benefit plan and defined contribution plans which are recognized as follows:

*(a) Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund. The Company's defined benefit post-employment plan covers substantially all of its employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds as published by Bloomberg using its valuation technologies, Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the plan or benefit payments.

Net interest is reported as part of Salaries and employee benefits under Direct Costs and Expenses, and General and Administrative Expenses in the statement of comprehensive loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

*(b) Post-employment Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution (i.e. Social Security System). The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

*(c) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Trade and Other Payables account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

## *2.14 Income Taxes*

Tax income recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive loss or directly in equity, if any.

Current tax assets or current tax liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or current tax liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or deferred tax liabilities that relate to items recognized in other comprehensive loss or directly in equity are recognized in other comprehensive loss or directly in equity, respectively.

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

### *2.15 Equity*

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock and additional capital infusion. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves pertains to accumulated actuarial gains as a result of remeasurements of post-employment defined benefit obligation, and unrealized fair value gains or losses on financial assets at FVOCI.

Unappropriated deficit includes all current and prior period results of operations as reported in profit or loss section of the statement of comprehensive loss, net of appropriated retained earnings.

Appropriated retained earnings represent the accumulated trust fund income that is automatically restricted to payments of benefits of planholders and related payments as required in the amended PNUCA.

### *2.16 Related Party Relationships and Transactions*

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual; and,
(a) the Company's funded retirement plan.

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

### *2.17 Events After the End of the Reporting Period*

Any post-year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with the financial reporting standards in the Philippines for pre-need companies, which include PFRS, and the guidelines in determining reserves and liabilities relating to pension, educational and life plans and contracts and financial statements presentation using the PNUCA as required previously by the SEC, and now adopted and required by the IC, requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

### *3.1 Critical Management Judgments in Applying Accounting Policies*

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

*(a) Determination of Lease Term of Contracts with Renewal and Termination Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.
For leases of office spaces, the factors that are normally the most relevant are (a) if there are significant penalties should the Company pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Company is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Company did not include the renewal period as part of the lease term for leases of office spaces because the terms are renewable upon the mutual agreement of the parties.

The lease term is reassessed if an option is actually exercised or not exercised or the Company becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company.

*(b) Determination of Timing of Satisfaction of Performance Obligations*

*(i) Sale of Memorial Lots and Columbary Vaults*

In determining the appropriate method to use in recognizing the Company's revenues from sale of memorial lots and columbary vaults, management determines that revenue is recognized at a point in time, when the Company has transferred control of the inventory to the customer and it has become probable that the Company will collect the consideration to which it is entitled. Management has determined that this generally occurs when total collections have reached 20% of the contract price.

*(ii) Rendering of Services*

The Company determines that revenue from interment services shall be recognized over time. In making its judgment, the Company considers the timing of receipt and consumption of benefits provided by the Company to the customers. The Company provides the services without the need of reperformance of other companies. This demonstrates that the customers simultaneously receive and consume the benefits of the Company's rendering of services as it performs.

*(c) Determination of ECL on Receivables*

The Company uses a provision matrix to calculate ECL for receivables. The provision rates are based on days past due by groupings accounts with similar loss patterns (i.e. by product type, customer type and rating).

The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

In respect to installment contract receivables from sale of memorial lots, management also considers information about historical cancellations and subsequent resale of the repossessed memorial lots in determining the historical expected credit loss. Details about the ECL on the Company's receivables are disclosed in Note 4.2(b).

*(d) Evaluation of Business Model Applied in Managing Financial Instruments*

The Company developed business models which reflect how it manages its portfolio of financial instruments under Investments in Trust Funds. The Company's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Company) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Company evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Company (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Company's investment and trading strategies.

*(e) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets under PFRS 9, the Company assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Company assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Company considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Company considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Company can explain the reasons for those sales and why those sales do not reflect a change in the Company's objective for the business model.

*(f) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.8 and disclosures on relevant provisions and contingencies are presented in Note 26.

### *3.2 Key Sources of Estimation Uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

*(a) Percentage Benchmark Used in Recognition of Revenue from Sale of Memorial Lots and Columbary Vaults*

The percentage benchmark used by the Company in determining whether to recognize any revenue from the sale of memorial lots and columbary vaults is 20% collection.

Management believes that the revenue recognition criteria is appropriate based on the Company's collection history from its customers. Buyer's interest in the property is considered to be vested when the payment threshold for each type of inventory lot has been received from the buyer and the Company has ascertained the buyer's commitment to complete the payment of the total contract price over the remaining collection period.

*(b) Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost and at FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.2.

(c) *Determination of PNR for Pension, Education, and Life Plans*

The determination of PNR for pension, education, and life plans is based on the guidelines issued by the IC to reflect the Company's own experience. The risks and uncertainties that inevitably surround many events and circumstances were taken into account in reaching the best estimate. Consequently, the assumptions used by the Company in computing the PNR may vary as a result of changes in economic condition, the Company's operating results and other factors.

The assumptions and amount of liability recognized by the Company as of December 31, 2021 and 2020 are disclosed in Note 16.

(d) *Determination of IPR for Pension, Education, and Life Plans*

IPR represents the amount that must be set aside by the Company to pay for premiums for insurance coverage of planholders. The IPR is the present value of all insurance premiums payable to the insurance company. Similar to PNR, the calculation uses the same assumptions and considers the portion of the future installments allotted for insurance expenses.

The assumptions and amount of liability recognized by the Company as of December 31, 2021 and 2020 are disclosed in Note 17.

(e) *Estimation of Useful Lives of Property and Equipment, and Right-of-use Assets*

The Company estimates the useful lives of property and equipment, and right-of-use assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and right-of-use assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment, and right-of-use assets are analyzed in Notes 12 and 13.1, respectively. Based on management's assessment as at December 31, 2021 and 2020, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(f) *Fair Value Measurement for Financial Instruments*

Management, in coordination with the trustee banks, applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Company's financial assets at FVTPL and FVOCI (included under Investments in Trust Funds) and the amounts of fair value changes recognized in 2021 and 2020 on those assets are disclosed in Note 5.1.

*(g) Determination of Recoverable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2021 and 2020, will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 22.

*(h) Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or CGU based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.12). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, no impairment losses for property and equipment, and right-of-use assets are required to be recognized in 2021 and 2020 (see Notes 12 and 13.1).

*(i) Valuation of Post-employment Benefit Obligation*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense, and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation, are presented in Note 21.2.

## 4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to certain financial risks which result from both its operating and investing activities. The Company's risk management is coordinated with its parent company, in close cooperation with the BOD, and focuses on actively securing the Company's short-to-medium term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are as follows:

### *4.1 Market Risk*

The Company is exposed to market risk through its use of financial instruments and specifically to interest rate risk and market price risk which result from both its operating and investing activities.

*(a) Interest Rate Risk*

The Company's exposure to interest rate risk pertains to the fluctuations in interest rates of its cash and cash equivalents. To minimize the possible adverse effects of these fluctuations on the Company's profit and loss, only placements with interest rates that are within the prevailing market rates are pursued. Placements with interest rates which are significantly higher or lower than the prevailing market rates are not prioritized by the Company following the concept of risk and return trade-off.

The Company also maintains short-term placements on its trust fund accounts which are managed by trustee banks (see Note 11). In addition, the Company has no significant long-term borrowings with variable or fixed interest rates as at December 31, 2021 and 2020. As such, the impact of interest rate changes are expected to be insignificant to the Company's operations.

Meanwhile, the Company's PNR are computed based on the attainable, reinstatement and other applicable rates; however, these rates are not sensitive to fluctuations as these are based on historical rate experience of the Company. Nevertheless, sensitivity of PNR as to change in assumptions is presented in Note 16.

*(b) Market Price Risk*

The Company's market price risk arises from its investments carried at fair value that are included in the Investments in Trust Funds maintained by the trustee banks for the Company. Trustee banks manage the risk arising from changes in market price by monitoring the changes in the market price of the investments.

The observed volatility rates of the fair values of the equity securities held as financial assets at FVTPL and at FVOCI and their impact on the Company's net loss and equity in 2021 and 2020 are summarized below.

| | Observed Volatility Rates | | Impact of Increase | | Impact of Decrease | |
|---|---|---|---|---|---|---|
| | Increase | Decrease | Net Loss | Equity | Net Loss | Equity |
| Equity securities measured at FVTPL | | | | | | |
| **December 31, 2021** | **+13.26%** | **-13.26%** | **(P 12,082,869)** | **P 8,458,008** | **P 12,082,869** | **(P 8,458,008)** |
| December 31, 2020 | +33.94% | -33.94% | (P 51,414,102) | P 35,989,872 | P 51,414,102 | (P 35,989,872) |
| Equity securities measured at FVOCI | | | | | | |
| **December 31, 2021** | **+13.26%** | **-13.26%** | **P -** | **P 1,721,119** | **P -** | **(P 1,721,119)** |
| December 31, 2020 | +33.94% | -33.94% | P - | P 7,496,301 | P - | (P 7,496,301) |

### *4.2 Credit Risk*

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below.

| | Notes | **2021** | 2020 |
|---|---|---|---|
| Cash and cash equivalents | 7 | **P 85,314,839** | P 67,988,961 |
| Receivables - net | 8 | **132,874,073** | 148,624,726 |
| Investment securities at amortized cost | 10 | **48,899,089** | - |
| Investments in trust funds* | 11 | **301,735,963** | 249,200,483 |
| Insurance premium fund** | 14 | **37,227,943** | 35,008,198 |
| Restricted cash – memorial care fund | 15 | **51,476,490** | 33,392,921 |
| Refundable deposits | 10 | **1,898,808** | 1,898,808 |
| | | **P 659,427,205** | P 536,114,097 |

** Excluding financial assets at FVTPL and equity securities classified as financial assets at FVOCI, and investment properties*
*** Excluding real estate inventories*

The Company continuously monitors defaults of other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties.

*(a) Cash and Cash Equivalents*

As part of Company policy, bank deposits are maintained with reputable financial institutions. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million per depositor per banking institution as provided for under R.A. No. 9576, *Charter of Philippine Deposit Insurance Corporation.*

The credit risk for cash and cash equivalents and restricted cash managed by the Company and those presented under Investments in Trust Funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

*(b) Receivables*

The Company applies simplified approach in measuring ECL which uses a lifetime ECL allowance for all receivables.

To measure the ECL, receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The other receivables relate to receivables from both employees and related parties other than installment contract receivables which have already been provided with allowance for impairment loss in prior years.

For the purpose of calculating loss given default for installment contract receivables from sale of memorial lots, the Company considered collections from resale of memorial lots after foreclosure, net of direct costs of obtaining and selling the memorial lots after the default event such as commission and other selling costs. Based on historical information about cancellations and subsequent resale of the repossessed memorial lots, management has assessed that the computed ECL is immaterial because the Company can foreclose and resell the underlying assets; hence, no additional loss allowance was recognized in 2021 and 2020.

*(c) Investments in Debt Securities*

Debt securities measured at FVOCI are considered to have low credit risk, and therefore, the loss allowance during the period is determined to be equivalent to 12 months ECL. Management considered "low credit risk" for listed debt securities to be an investment grade rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low risk of default and issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Management assesses that loss allowance for debt securities, if any, are not significant as the counterparties are the government and reputable banks and corporations with high external credit ratings.

*(d) Refundable Deposits*

Management assesses that loss allowance for refundable deposits are not significant as the counterparties are the Company's long-time lessors and the Company has no plan to pre-terminate its lease contracts.

### *4.3 Liquidity Risk*

The Company monitors the liquidity of its assets and matches the estimated maturity of its obligations in line with the Company's policy to maintain adequate liquidity at all times. This policy aims to honor all cash requirements on an ongoing basis and to avoid raising funds above market rates or through the forced sales of assets.

The Company maintains trust funds which are being administered by local banks in accordance with the IC requirements to cover the PNR and IPR for pension, education, and life plans.

The Company's financial liabilities as of December 31 are presented below.

| | | **2021** | | 2020 | |
|---|---|---|---|---|---|
| | Notes | **Current** | **Non-current** | Current | Non-current |
| Trade and other payables | 15 | **P 316,149,419** | **P -** | P 291,100,208 | P - |
| Lease liabilities | 13.2 | **680,141** | **417,279** | 777,114 | 1,026,216 |
| Trust fees payable and accounts payable* | 11 | **162,196** | **-** | 1,078,385 | - |
| Bond reserves | | **-** | **2,377,120** | - | 1,975,404 |
| | | **P 316,991,756** | **P 2,794,399** | P 292,955,707 | P 3,001,620 |

**Presented as part of Investments in Trust Funds*

### 4.4 Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and, therefore, unpredictable.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographic location and type of industry covered. The Company manages this risk through the trust funds which are administered by local banks. These trust fund assets are at least equal or higher than the estimated liabilities. Also, the Company monitors the profile of its planholders to ensure diversity with respect to age, lifestyle and other insurance risk factors. Moreover, for insurable risks under life plan contracts, the Company has an existing insurance policy with an insurance company.

## 5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 5.1 Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and financial liabilities, which include the reserve and non-reserve trust fund accounts, presented in the statements of financial position are shown below.

| | | **2021** | | 2020 | |
|---|---|---|---|---|---|
| | Notes | **Carrying Amounts** | **Fair Values** | Carrying Amounts | Fair Values |
| *Financial assets* | | | | | |
| At amortized cost: | | | | | |
| Cash and cash equivalents | 7 | **P 85,314,839** | **P 85,314,839** | P 67,988,961 | P 67,988,961 |
| Receivables - net | 8 | **132,874,073** | **132,796,685** | 148,624,726 | 148,538,758 |
| Investment securities at amortized cost | 10 | **48,899,089** | **48,691,051** | - | - |
| Investments in trust fund | 11 | | | | |
| Cash and cash equivalents | | **117,025,166** | **117,025,166** | 95,480,920 | 95,480,920 |
| Debt securities | | **1,047,696** | **1,047,696** | 1,057,897 | 1,057,897 |
| Loans and receivables | | **3,072,689** | **3,072,689** | 4,606,438 | 4,606,438 |
| Insurance premium fund | 14 | | | | |
| Restricted cash | | **33,867,931** | **33,867,931** | 24,990,656 | 24,990,656 |
| Due from parent company – La Loma | | **2,259,566** | **2,259,566** | 8,723,574 | 8,723,574 |
| Planholder's loan | | **1,100,446** | **1,100,446** | 1,293,968 | 1,293,968 |
| Restricted cash – Memorial care fund | 15 | **51,476,490** | **51,476,490** | 33,392,921 | 33,392,921 |
| Refundable deposits | 10 | **1,898,808** | **1,898,808** | 1,898,808 | 1,898,808 |
| | | **P 478,836,793** | **P 478,551,367** | P 388,058,869 | P 387,972,901 |
| At fair value – | | | | | |
| Investment in trust fund: | 11 | | | | |
| Financial assets at FVOCI | | **P 198,253,927** | **P 198,253,927** | P 179,607,971 | P 179,607,971 |
| Financial assets at FVTPL | | **122,947,190** | **122,947,190** | 186,355,973 | 186,355,973 |
| | | **P 321,201,117** | **P 321,201,117** | P 365,963,944 | P 365,963,944 |
| *Financial liabilities* | | | | | |
| At amortized cost: | | | | | |
| Trade and other payables | 15 | **P 316,149,419** | **P 316,149,419** | P 291,100,208 | P 291,100,208 |
| Bond reserves | | **2,377,120** | **2,377,120** | 1,975,404 | 1,975,404 |
| Lease liabilities | 13.2 | **1,097,420** | **1,097,420** | 1,803,330 | 1,803,330 |
| Trust fees payable and accounts payable* | 11 | **162,196** | **162,196** | 1,078,385 | 1,078,385 |
| | | **P 319,786,155** | **P 319,786,155** | P 295,957,327 | P 295,957,327 |

**Presented as part of Investments in Trust Funds*

See Note 2.3 for the description of the accounting policies for each category of financial instrument. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 4.

### *5.2 Offsetting of Financial Assets and Financial Liabilities*

The Company has not set-off financial instruments in 2021 and 2020 and does not have relevant offsetting arrangements. Currently, all other financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BOD and stockholders. As such, the Company's outstanding receivables from and payables to the same related parties as presented in Note 24 can be potentially offset to the extent of their corresponding outstanding balances.

## 6. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *6.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement,* the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### *6.2 Financial Instruments Measured at Fair Value*

The table below shows the fair value hierarchy of the Company's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2021 and 2020.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2021** | | | | |
| Financial assets measured at FVOCI | | | | |
| Debt securities | P 180,590,412 | P - | P - | P 180,590,412 |
| Equity securities | 17,663,515 | - | - | 17,663,515 |
| Financial assets measured at FVTPL | | | | |
| Debt securities | 31,824,498 | - | - | 31,824,498 |
| Equity securities | 91,122,692 | - | - | 91,122,692 |
| | **P 321,201,117** | **P -** | **P -** | **P 321,201,117** |
| December 31, 2020 | | | | |
| Financial assets measured at FVOCI | | | | |
| Debt securities | P 148,055,228 | P - | P - | P 148,055,228 |
| Equity securities | 31,552,743 | - | - | 31,552,743 |
| Financial assets measured at FVTPL | | | | |
| Debt securities | 34,870,698 | - | - | 34,870,698 |
| Equity securities | 151,485,275 | - | - | 151,485,275 |
| | P 365,963,944 | P - | P - | P 365,963,944 |

As of December 31, 2021 and 2020, the Company has no financial assets measured at fair value which are classified under Level 2 and 3. There were no transfers from Level 1 to Level 2 or 3 instruments in both years.

The Company has no financial liabilities measured at fair value as of December 31, 2021 and 2020.

Described below are the information about how the fair values of the Company's classes of financial assets are determined.

*(a) Equity Securities*

As of December 31, 2021 and 2020, all equity securities are publicly listed. Equity securities are valued at the closing market price as published by Philippine Stock Exchange (PSE).

*(b) Debt Securities*

The fair value of the Company's debt securities which consist of government and corporate bonds is estimated by reference to quoted bid price in active market (e.g. Bloomberg and Philippine Dealings System) the end of the reporting period.

### *6.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The table below and in the succeeding page summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **December 31, 2021** | | | | |
| ***Financial assets*** | | | | |
| Cash and cash equivalents | P 85,314,839 | P - | P - | P 85,314,839 |
| Receivables – net | - | - | 132,796,685 | 132,796,685 |
| Investment securities at amortized cost | - | - | 48,691,051 | 48,691,051 |
| Investments in trust funds: | | | | |
| Cash and cash equivalents | 117,025,166 | - | - | 117,025,166 |
| Debt securities | 1,047,696 | - | - | 1,047,696 |
| Receivable | - | - | 3,072,689 | 3,072,689 |
| Restricted cash – memorial care fund | 51,476,490 | - | - | 51,476,490 |
| Insurance premium fund | | | | |
| Restricted cash – insurance premium fund | 33,867,931 | - | - | 33,867,931 |
| Due from parent company – La Loma | - | - | 2,259,566 | 2,259,566 |
| Planholders' loan | - | - | 1,100,446 | 1,100,446 |
| Refundable deposits | - | - | 1,898,808 | 1,898,808 |
| | **P 288,732,122** | **P -** | **P 189,819,245** | **P 478,551,367** |
| ***Financial liabilities*** | | | | |
| Trade and other payables | P - | P - | P 316,149,419 | P 316,149,419 |
| Bond reserves | - | - | 2,377,120 | 2,377,120 |
| Lease liabilities | - | - | 1,097,420 | 1,097,420 |
| Trust fees payable and accounts payable | - | - | 162,196 | 162,196 |
| | **P -** | **P -** | **P 319,786,155** | **P 319,786,155** |
| December 31, 2020 | | | | |
| *Financial assets* | | | | |
| Cash and cash equivalents | P 67,988,961 | P - | P - | P 67,988,961 |
| Receivables – net | - | - | 148,538,758 | 148,538,758 |
| Investments in trust funds: | | | | |
| Cash and cash equivalents | 95,480,920 | - | - | 95,480,920 |
| Debt securities | 1,057,897 | - | - | 1,057,897 |
| Receivable | - | - | 4,606,438 | 4,606,438 |
| Restricted cash – memorial care fund | 33,392,921 | - | - | 33,392,921 |
| Insurance premium fund | | | | |
| Restricted cash – insurance premium fund | 24,990,656 | - | - | 24,990,656 |
| Due from parent company – La Loma | - | - | 8,723,574 | 8,723,574 |
| Planholders' loan | - | - | 1,293,968 | 1,293,968 |
| Refundable deposits | - | - | 1,898,808 | 1,898,808 |
| | P 222,911,355 | P - | P 165,061,546 | P 387,972,901 |

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| December 31, 2020 | | | | | | | | |
| *Financial liabilities* | | | | | | | | |
| Trade and other payables | P | - | P | - | P | 291,100,208 | P | 291,100,208 |
| Bond reserves | | - | | - | | 1,975,404 | | 1,975,404 |
| Lease liabilities | | - | | - | | 1,803,330 | | 1,803,330 |
| Trust fees payable and accounts payable | | - | | - | | 1,078,385 | | 1,078,385 |
| | P | - | P | - | P | 295,957,327 | P | 295,957,327 |

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. There have been no significant transfers among Levels 1 and 3 in the reporting periods.

### *6.4 Fair Value Measurement for Non-financial Assets*

The fair value of the Company's investment properties which are categorized as Level 2, are P101.9 million and P104.1 million in 2021 and 2020, respectively (see Note 11). Fair value is determined on the basis of recent sale of adjacent properties. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the asset in its highest and best use. Based on management assessment, the best use of the Company's non-financial assets is their current use.

The Level 2 fair value of investment properties was derived using the observable recent transaction prices for similar properties in nearby locations adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value.

There has been no change to the valuation techniques used by the Company during the year for its investment properties. Also, there were neither transfers between Levels 1 and 3 nor changes in Level 2 instruments in 2021 and 2020.

## 7. CASH AND CASH EQUIVALENTS

The breakdown of this account follows:

| | | **2021** | | 2020 |
|---|---|---|---|---|
| Cash on hand | **P** | **505,000** | P | 440,000 |
| Cash in banks | | **81,664,365** | | 61,506,765 |
| Short-term placements | | **3,145,474** | | 6,042,196 |
| | **P** | **85,314,839** | P | 67,988,961 |

Cash in banks generally earn interest at rates based on daily bank deposit rates. The Company's short-term placements with maturities of 32 to 63 days in 2021 and 33 to 34 days in 2020 earns effective interest from 1.50% to 1.63% and 1.13% per annum, respectively.

Interest income earned from cash and cash equivalents amounted to P0.3 million both in 2021 and 2020, respectively, and are shown as part of Finance Income account in the statements of comprehensive loss.

## 8. RECEIVABLES

The breakdown of this account is as follows:

| | Note | **2021** | 2020 |
|---|---|---|---|
| Installment contract receivables (ICR) | | **P 126,074,273** | P 122,161,638 |
| Receivable from trust funds | | **2,560,619** | 24,754,308 |
| Mortgage loans | | **3,931,944** | 3,474,534 |
| Others | 24.2 | **13,869,269** | 11,796,278 |
| | | **146,436,105** | 162,186,758 |
| Allowance for impairment | | **( 13,562,032)** | ( 13,562,032) |
| | | **P 132,874,073** | P 148,624,726 |

As of December 31, 2021 and 2020, receivables significantly pertain to the Company's ICR. ICR represents customers' balances arising from the sale of memorial lots which are due within a period of one year to five years from the end of the reporting period. ICR is presented net of deferred interest revenue as shown below.

| | **2021** | 2020 |
|---|---|---|
| ICR | **P 155,558,716** | P 149,968,311 |
| Deferred interest revenue | **( 29,484,443)** | ( 27,806,673) |
| | **P 126,074,273** | P 122,161,638 |

Receivable from trust funds pertains advances for retirement funds, which are reimbursable by the trustee banks.

Mortgage loans pertain to car loans issued to agents and officers which are supported by a chattel mortgage with an annual interest rate of 9.00%.

All of the Company's receivables have been assessed for impairment based on the ECL model allowed under PFRS 9 [see Note 4.2(b)]. Based on management's evaluation, no additional impairment loss is to be recognized in 2021 and 2020 as the outstanding amount of allowance for impairment is assessed to be sufficient to cover the ECL.

Receivables are unsecured and do not bear any interest except for ICR and mortgage loans. Interest income earned from these receivables amounting to P12.6 million and P10.5 million in 2021 and 2020, respectively, are presented as part of Finance Income in the statements of comprehensive loss.

## 9. MEMORIAL LOT INVENTORIES

The cost of memorial lot inventories as of December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Balance at beginning of year | P 57,241,974 | P 61,980,223 |
| Costs of lots sold | ( 6,893,143) | ( 4,738,249) |
| Balance at end of year | P 50,348,831 | P 57,241,974 |

In August 2019, the BOD approved the construction project of apartment-style niches in one of its memorial parks.

Costs of memorial lots sold in the statements of comprehensive loss is presented as follows (see Note 19):

| | 2021 | 2020 |
|---|---|---|
| Partners' share | P 18,584,528 | P 13,515,223 |
| Costs of lots: | | |
| Costs of memorial lots sold | 6,893,143 | 4,738,249 |
| Cost of real estate inventories sold | 1,208,660 | 2,700,180 |
| Commission and other direct costs | 29,237,578 | 24,767,776 |
| | P 55,923,909 | P 45,721,428 |

Sales of memorial lots in 2021 and 2020 include sale of columbary vaults that are part of the Company's real estate inventories under Insurance Premium Funds account in the statements of financial position (see Note 14). Revenues earned on sale of columbary vaults amounted to P3.1 million and P6.0 million in 2021 and 2020, respectively (see Notes 14 and 18).

## 10. OTHER ASSETS

This account is composed of the following:

| | 2021 | 2020 |
|---|---|---|
| Current: | | |
| Refundable deposits | P 1,898,808 | P 1,898,808 |
| Tax credits | 983,677 | 826,910 |
| Interment | 707,996 | 310,396 |
| Other prepayments | 1,328,088 | 1,369,878 |
| | P 4,918,569 | P 4,405,992 |
| Non-current – | | |
| Investment securities at amortized cost | P 48,899,089 | P - |

Other prepayments pertain to prepaid taxes, prepaid marketing expenses and other fees paid in advance to the Company's suppliers.

In 2021, the Company purchased certain investment securities at amortized cost amounting to P48.9 million. There was no similar transaction in 2021. Investment securities at amortized cost composed of 17-year and 18-year peso-denominated bonds issued by the Philippine government, which bear fixed interest rate of 5.00% and 5.02% per annum and will mature on January 24, 2039 and September 9, 2040, respectively. Interest income earned from these investments amounting to P0.28 million and is presented as part of Finance Income in the 2021 statement of comprehensive loss. No similar transaction in 2020.

## 11. INVESTMENTS IN TRUST FUNDS

The Company has established trust funds which are being administered by UCPB Trust, (an affiliated local commercial bank), and BDO Unibank under trust agreements for the fulfillment of the Company's obligations under its pre-need memorial (life), pension and educational plan agreements. In compliance with the rules and regulations of the IC and in accordance with the terms of the trust agreements, withdrawals from Trust Funds are limited to, among others, payments of pre-need plan benefits, bank charges and investment expenses in the operation of the Trust Funds, termination value payable to planholders and final taxes on investment income of the Trust Funds.

As of December 31, 2021 and 2020, the Company's investments in trust funds consist of the following:

| | 2021 | | | |
|---|---|---|---|---|
| | **Pension** | **Education** | **Life** | **Total** |
| **Assets** | | | | |
| Financial assets measured at amortized cost: | | | | |
| Cash and cash equivalents | P 58,573,402 | P 5,898,095 | P 52,553,669 | P 117,025,166 |
| Debt securities | - | - | 1,047,696 | 1,047,696 |
| Loans and receivables | 1,774,750 | 448,853 | 849,086 | 3,072,689 |
| Financial assets measured at FVOCI: | | | | |
| Debt securities | 94,150,220 | 47,605,752 | 38,834,440 | 180,590,412 |
| Equity securities | 3,676,305 | 7,386,560 | 6,600,650 | 17,663,515 |
| Financial assets measured at FVTPL: | | | | |
| Debt securities | - | - | 31,824,498 | 31,824,498 |
| Equity securities | 39,006,957 | 14,541,194 | 37,574,541 | 91,122,692 |
| Investment properties | 101,892,922 | - | - | 101,892,922 |
| Total Assets | 299,074,556 | 75,880,454 | 169,284,580 | 544,239,590 |
| **Liabilities** | | | | |
| Trust fees payable | 101,399 | 17,106 | 42,955 | 161,460 |
| Taxes payable | 28,198 | 41,596 | 62,872 | 132,666 |
| Accounts payable – others | 231 | 223 | 282 | 736 |
| Total Liabilities | 129,828 | 58,925 | 106,109 | 294,862 |
| Investments in trust funds | **P 298,944,728** | **P 75,821,529** | **P 169,178,471** | **P 543,944,728** |

| | 2021 | | | |
|---|---|---|---|---|
| | **Pension** | **Education** | **Life** | **Total** |
| Fund balance and accumulated trust fund income: | | | | |
| Balance at beginning of year | P 357,735,670 | P 89,515,650 | P 159,709,456 | P 606,960,776 |
| Additional contributions | 96,554,084 | 20,000,001 | 14,935,286 | 131,489,371 |
| Withdrawals during the year | ( 115,023,620) | ( 44,266,388) | ( 4,860,723) | ( 164,150,731) |
| Net income (loss) | ( 3,540,742) | 1,808,439 | 2,342,589 | 610,286 |
| Balance at end of year | 335,725,392 | 67,057,702 | 172,126,608 | 574,909,702 |
| Revaluation reserve on financial assets measured at FVOCI: | | | | |
| Balance at beginning of year | ( 45,156,475) | 10,343,298 | ( 2,158,807) | ( 36,971,984) |
| Changes in fair value of financial assets at FVOCI | 8,873,942 | 55,850 | ( 58,979) | 8,870,813 |
| Transfer to trust fund income | ( 498,131) | ( 1,635,321) | ( 730,351) | ( 2,863,803) |
| Balance at end of year | ( 36,780,664) | 8,763,827 | ( 2,948,137) | ( 30,964,974) |
| Investments in trust funds | **P 298,944,728** | **P 75,821,529** | **P 169,178,471** | **P 543,944,728** |

| | 2020 | | | |
|---|---|---|---|---|
| | Pension | Education | Life | Total |
| Assets | | | | |
| Financial assets measured at amortized cost: | | | | |
| Cash and cash equivalents | P 11,987,956 | P 26,277,567 | P 57,215,397 | P 95,480,920 |
| Debt securities | - | - | 1,057,897 | 1,057,897 |
| Loans and receivables | 3,249,921 | 563,533 | 792,984 | 4,606,438 |
| Financial assets measured at FVOCI: | | | | |
| Debt securities | 103,652,628 | 32,523,574 | 11,879,026 | 148,055,228 |
| Equity securities | 10,706,855 | 13,041,338 | 7,804,550 | 31,552,743 |
| Financial assets measured at FVTPL: | | | | |
| Debt securities | - | - | 34,870,698 | 34,870,698 |
| Equity securities | 79,052,705 | 27,991,632 | 44,440,938 | 151,485,275 |
| Investment properties | 104,075,004 | - | - | 104,075,004 |
| Total Assets | 312,725,069 | 100,397,644 | 158,061,490 | 571,184,203 |
| Liabilities | | | | |
| Trust fees payable | 122,437 | 22,047 | 37,767 | 182,251 |
| Taxes payable | 22,957 | 42,925 | 51,144 | 117,026 |
| Accounts payable – others | 480 | 473,724 | 421,930 | 896,134 |
| Total Liabilities | 145,874 | 538,696 | 510,841 | 1,195,411 |
| Investments in trust funds | P 312,579,195 | P 99,858,948 | P 157,550,649 | P 569,988,792 |

| | 2020 | | | |
|---|---|---|---|---|
| | Pension | Education | Life | Total |
| Fund balance and accumulated trust fund income: | | | | |
| Balance at beginning of year | P 450,252,894 | P 121,466,231 | P 152,848,503 | P 724,567,628 |
| Prior year adjustments | ( 372) | - | - | ( 372) |
| Additional contributions | 59,014,513 | 8,161,740 | 5,068,364 | 72,244,617 |
| Withdrawals during the year | ( 154,102,357) | ( 41,269,155) | ( 1,509,006) | ( 196,880,518) |
| Net income | 2,570,992 | 1,156,834 | 3,301,595 | 7,029,421 |
| Balance at end of year | 357,735,670 | 89,515,650 | 159,709,456 | 606,960,776 |
| Revaluation reserve on financial assets measured at FVOCI: | | | | |
| Balance at beginning of year | ( 44,848,020) | 10,648,104 | ( 1,921,754) | ( 36,121,670) |
| Changes in fair value of financial assets at FVOCI | ( 8,350,431) | 1,579,471 | 789,330 | ( 5,981,630) |
| Transfer to trust fund income | 8,041,976 | ( 1,884,277) | ( 1,026,383) | 5,131,316 |
| Balance at end of year | ( 45,156,475) | 10,343,298 | ( 2,158,807) | ( 36,971,984) |
| Investments in trust funds | P 312,579,195 | P 99,858,948 | P 157,550,649 | P 569,988,792 |

Cash and cash equivalents comprise of special deposit accounts, time deposits, and savings deposit accounts with interest rates ranging from 0.13% to 0.75% in 2021 and from 0.10% to 0.25% in 2020.

Financial assets at FVTPL comprise of investments in stocks of listed companies, government securities and other corporate debt instruments. Investments in debt securities earn annual interest rates ranging from 3.25% to 8.00% in 2021 and from 1.91% to 6.80% in 2020.

Financial assets at FVOCI comprise of equity securities, government securities and other corporate debt instruments. Investments in debt securities earn annual interest rates ranging from 1.11% to 18.25% in 2021 and from 2.63% to 6.82% in 2020.

As of December 31, 2021 and 2020, investment properties consist of 4,266 and 4,450 memorial park lots, respectively, located in Palmhaven Memorial Park in Tagum City.

As of both December 31, 2021 and 2020, investment properties consist of 1,447 memorial park lots located in Cagayan De Oro Gardens. The fair value measurement for investment properties has been categorized as Level 2 based on the inputs to the valuation technique used (see Note 6.4).

The underlying assets and liabilities of the Investments in Trust Funds are recognized and measured in accordance with the financial reporting standards in the Philippines for pre-need companies as described in Note 2. The balance of the Investments in Trust Funds at the end of the year represents the trust fund contributions and trust fund income. Contributions are being made based on the applicable provisions of the Pre-need Code, adjusted to conform with the actuary's study and evaluation, which is presented as Increase in Pre-need Reserves under Direct Cost and Expenses account in the statements of comprehensive loss (see Notes 16 and 19).

## 12. PROPERTY AND EQUIPMENT

The gross carrying amounts, and accumulated depreciation and amortization at the beginning and end of 2021 and 2020 are shown below.

| | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | Computer Equipment | Total |
|---|---|---|---|---|---|
| **December 31, 2021** | | | | | |
| Cost | P 36,293,855 | P 9,230,322 | P 32,093,438 | P 20,093,596 | P 97,711,211 |
| Accumulated depreciation and amortization | ( 32,275,752) | ( 8,443,978) | ( 30,404,484) | ( 19,854,221) | ( 90,978,435) |
| Net carrying amount | **P 4,018,103** | **P 786,344** | **P 1,688,954** | **P 239,375** | **P 6,732,776** |
| **December 31, 2020** | | | | | |
| Cost | P 33,692,041 | P 9,230,322 | P 32,093,438 | P 19,909,255 | P 94,925,056 |
| Accumulated depreciation and amortization | ( 31,475,114) | ( 8,143,193) | ( 30,193,761) | ( 19,757,718) | ( 89,569,786) |
| Net carrying amount | P 2,216,927 | P 1,087,129 | P 1,899,677 | P 151,537 | P 5,355,270 |
| **January 1, 2020** | | | | | |
| Cost | P 33,750,847 | P 9,178,224 | P 32,093,438 | P 19,763,748 | P 94,786,257 |
| Accumulated depreciation and amortization | ( 30,929,558) | ( 7,846,748) | ( 29,983,039) | ( 19,702,669) | ( 88,462,014) |
| Net carrying amount | P 2,821,289 | P 1,331,476 | P 2,110,399 | P 61,079 | P 6,324,243 |

A reconciliation of the carrying amounts at the beginning and end of 2021 and 2020 of property and equipment is shown below.

| | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | Computer Equipment | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2021, net of accumulated depreciation and amortization | P 2,216,927 | P 1,087,129 | P 1,899,677 | P 151,537 | P 5,355,270 |
| Additions | 2,601,814 | - | - | 184,341 | 2,786,155 |
| Depreciation and amortization Charges for the year | ( 800,638) | ( 300,785) | ( 210,723) | ( 96,503) | ( 1,408,649) |
| Balance at December 31, 2021, net of accumulated depreciation and amortization | **P 4,018,103** | **P 786,344** | **P 1,688,954** | P **239,375** | **P 6,732,776** |
| Balance at January 1, 2020, net of accumulated depreciation and amortization | P 2,821,289 | P 1,331,476 | P 2,110,399 | P 61,079 | P 6,324,243 |
| Additions | 400,094 | 52,098 | - | 145,507 | 597,699 |
| Disposals | ( 39,799) | - | - | - | ( 39,799) |
| Depreciation and amortization Charges for the year | ( 964,657) | ( 296,445) | ( 210,722) | ( 55,049) | ( 1,526,873) |
| Balance at December 31, 2020, net of accumulated depreciation and amortization | P 2,216,927 | P 1,087,129 | P 1,899,677 | P 151,537 | P 5,355,270 |

Depreciation and amortization is allocated as follow:

| | Notes | **2021** | 2020 |
|---|---|---|---|
| Costs of memorial lots sold | 19 | **P 1,326,965** | P 1,484,266 |
| General and administrative expenses | 20.1 | **81,684** | 42,607 |
| | 20.2 | **P 1,408,649** | P 1,526,873 |

In 2020, the Company sold certain office furniture and equipment which resulted to a gain amounting to P0.2 million and is recognized as part of Miscellaneous account under Other Revenues in the 2020 statement of comprehensive loss (see Note 18). There was no similar transaction in 2021.

## 13. LEASES

The Company has leases for certain offices. With the exception of short-term leases, each lease is reflected on the statements of financial position as a right-of-use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security.

For leases over offices, the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The Company has two right-of-use assets for its leased office spaces in Bacolod and Tagum City, with remaining lease term ranging from three to five years; thus, having an average remaining lease term of four years at the date of initial application. These leased assets do not have any enforceable extension options, options to purchase and termination options.

### *13.1 Right-of-use Assets*

The carrying amounts of the Company's right-of-use assets as of December 31, 2021 and 2020 as presented in the statements of financial position and the movements during the years are shown below.

| | Note | **2021** | 2020 |
|---|---|---|---|
| Balance at beginning of year | | **P 1,587,026** | P 2,337,248 |
| Amortization during the year | 20.1, 20.2 | **( 750,222)** | ( 750,222) |
| Balance at end of year | | **P 836,804** | P 1,587,026 |

### *13.2 Lease Liabilities*

Lease liabilities are presented in the statements of financial position as of December 31, 2021 and 2020 as follows:

| | **2021** | 2020 |
|---|---|---|
| Current | **P 680,141** | P 777,114 |
| Non-current | **417,279** | 1,026,216 |
| | **P 1,097,420** | P 1,803,330 |

As of December 31, 2021 and 2020, the Company has no lease commitments which had not commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2021 and 2020 is as follows:

| | Within 1 year | 1 to 2 years | 2 to 3 years | 3 to 4 years | Total |
|---|---|---|---|---|---|
| **December 31, 2021** | | | | | |
| Lease payments | P 748,753 | P 299,015 | P 153,154 | P - | P 1,200,922 |
| Finance charges | ( 68,612) | ( 30,433) | ( 4,457) | ( - ) | ( 103,502 ) |
| Net present value | **P 680,141** | **P 268,582** | **P 148,697** | **P -** | **P 1,097,420** |
| December 31, 2020 | | | | | |
| Lease payments | P 925,837 | P 677,549 | P 299,015 | P 153,153 | P 2,055,554 |
| Finance charges | ( 148,723) | ( 68,611) | ( 30,432) | ( 4,458) | ( 252,224 ) |
| Net present value | P 777,114 | P 608,938 | P 268,583 | P 148,695 | P 1,803,330 |

### *13.3 Lease Payments Not Recognized as Liabilities*

The Company has elected not to recognize a lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis. The expenses incurred related to short-term leases amounted to P0.09 million and P0.08 million in 2021 and 2020, respectively, and is presented as Rentals under Direct Cost and Expenses in the statements of comprehensive loss (see Notes 19 and 20.2).

### *13.4 Additional Profit or Loss and Cash Flow Information*

The total cash outflow in respect of leases amounted to P0.9 million in both 2021 and 2020. Interest expense in relation to lease liabilities amounted to P0.2 million both for 2021 and 2020, and presented as Finance Cost in the statements of comprehensive loss.

## 14. INSURANCE PREMIUM FUNDS

This account consists of:

| | Notes | 2021 | 2020 |
|---|---|---|---|
| Real estate inventories | 9 | **P 15,876,500** | P 17,468,750 |
| Restricted cash – insurance premium fund | | **33,867,931** | 24,990,656 |
| Due from parent company – La Loma | 24 | **2,259,566** | 8,723,574 |
| Planholders' loan | | **1,100,446** | 1,293,968 |
| | 17 | **P 53,104,443** | P 52,476,948 |

Movements of the account are as follows:

| | 2021 | 2020 |
|---|---|---|
| Balance at beginning of year | P 52,476,948 | P 49,655,157 |
| Movements during the year: | | |
| Sale of real estate inventories | ( 1,592,250) | ( 3,052,500) |
| Increase in restricted cash – insurance premium fund | 8,877,275 | 5,363,687 |
| Increase (decrease) in due from parent company – La Loma | ( 6,464,008) | 715,916 |
| Decrease in planholder's loan | ( 193,522) | ( 205,312) |
| | 627,495 | 2,821,791 |
| Balance at end of year | P 53,104,443 | P 52,476,948 |

Real estate inventories pertain to 1,155 and 1,123 columbary vaults as of December 31, 2021 and 2020, respectively, located at La Loma Columbarium, La Loma Parks, Caloocan City.

In 2021 and 2020, the parent company sold 193 and 370 units, respectively, of columbary vaults and the Company recognized an income of P0.5 million and P0.6 million representing its 60% share presented as part of the Sale of Columbary Vaults account in the statements of comprehensive loss. The Company's total sale of columbary vaults amounted to P3.1 million and P6.0 million in 2021 and 2020, respectively, and are presented as Sale of Columbary Vaults account in the statements of comprehensive loss (see Notes 9 and 18).

Due from parent company – La Loma pertains to sale of columbary vaults less selling costs which will be remitted by the parent company (see Note 24). The Company's Due from Parent Company – La Loma account has been reviewed for impairment. Based on management's evaluation there were no impairment losses related to this account in 2021 and 2020.

Planholders' loan pertains to the amount borrowed by fully paid planholders, not exceeding 80% of their pre-maturity benefits which earns interest at 18% per annum. Interest income from planholders' loan amounted to P0.6 million and P0.1 million in 2021 and 2020, respectively, and are presented as part of Finance Income in the statements of comprehensive loss. This account represents corporate assets that are restricted to cover the payment of insurance premiums after the paying period of the pre-need plan.

## 15. TRADE AND OTHER PAYABLES

This account consists of:

| | Note | 2021 | 2020 |
|---|---|---|---|
| Accounts payable | | **P 164,107,469** | P 157,017,814 |
| Memorial care fund | | **87,805,618** | 74,887,684 |
| Customers' deposits | | **31,087,236** | 25,117,292 |
| Partners' share | | **17,427,527** | 18,395,559 |
| Accrued expenses | | **7,710,685** | 6,511,034 |
| Planholders' deposits | | **4,668,092** | 4,653,673 |
| VAT payable | | **401,913** | 1,090,151 |
| Other current liabilities | 24.1 | **3,342,792** | 4,517,152 |
| | | **P 316,551,332** | P 292,190,359 |

Accounts payable consist mainly of payables to contractors which pertain to the Company's share on development cost of the memorial parks. These are noninterest-bearing and are payable within one year.

Memorial care fund pertains to a fixed percentage of the selling price of the lots that are segregated and set aside as a permanent fund in accordance with the provisions of the purchase agreement. These funds shall only be used for the improvement, embellishment of the lots, walks, drives, parks and other improvements in the cemetery. The funds shall also be used in the maintenance of office and care of records. Movement in the account pertains to additions during the year. No usage of fund was made in 2021 and 2020. The amount of restricted cash related to the memorial care fund amounted to P51.5 million and P33.4 million as of December 31, 2021 and 2020, respectively, which is presented under Restricted Cash – Memorial Care Fund account on the statements of financial position. Interest income earned from the restricted cash amounted to P0.3 million and P0.8 million as of December 31, 2021 and 2020, respectively and are presented as part of Finance Income in the statements of comprehensive loss. As an industry practice, the amount turned over to the memorial care fund is only for fully paid contracts in as much as outstanding contracts may still be forfeited and/or rescinded.

Customers' deposits consist of payments received from lot buyers as reservation for the memorial lots, any excess of collections over the recognized receivables and amortizations received from lot buyers whose contracts have been lapsed.

Partners' share pertains to the amount to be remitted by the Company from the sale of memorial lots owned by the parent company, Cocogen and UCPB Trust. The carrying value of the account approximates its fair value.

Planholders' deposits consist of installment premiums received from various plans, which are mostly inactive.

## 16. PRE-NEED RESERVES

This account consists of the Transitory Pre-need Reserve (TPNR) as of December 31, 2021 and 2020.

| | **2021** | 2020 |
|---|---|---|
| Pension | **P 391,076,141** | P 369,020,356 |
| Life | **220,111,109** | 178,085,883 |
| Education | **92,459,169** | 113,369,295 |
| | **P 703,646,419** | P 660,475,534 |

The movement in pre-need reserves amounting to an increase of P43.2 million in 2021 and decrease of P53.6 million in 2020 are presented as Increase (Decrease) in Pre-need Reserves under Direct Cost and Expenses account in the statements of comprehensive loss (see Note 19).

The method in determining the PNR is in accordance with the amended PNUCA issued by the SEC on January 17, 2008 upon which the Company has properly complied with. The required reserves were based on the provisions of PAS 37 and the specific method of computation required by the IC.

On November 28, 2012, the IC issued CL No. 23-2021, which discussed the valuation of TPNR.

In order to provide regulatory leeway for old basket of plans, previously approved by the SEC, the valuation of pre-need reserves starting at the end of 2012 shall be governed by the following:

*(a) Discount Interest Rate for the Reserves*

The transitory discount interest rates per year that shall be used in the valuation of PNR shall not exceed the lower of the attainable rates as certified by the Trustee, and the following rates:

| Year | Rate |
|---|---|
| 2012-2016 | 8.00% |
| 2017 | 7.25% |
| 2018 | 6.50% |
| 2019 and onwards | 6.00% |

*(b) TPNR*

To effect a smooth transition in the valuation of the reserves for old basket of plans, the IC shall prescribe a TPNR. A maximum transition period of 10 years shall be observed in the implementation of the TPNR.

For each of the pre-need plan categories, namely, education, pension and life plans, the TPNR shall be computed annually on all old basket of plans outstanding on the 31st of December of each year from 2012 to 2021 using the discount interest rates as provided above. If the actual trust fund balance is higher than or equal to the resulting PNR then the liability to be set up shall be the PNR.

However, if the resulting PNR is greater than the actual trust fund balance at the end of the year, the TPNR shall be computed in accordance with the schedule as provided in the IC CL No. 23-2012. The Company's trust fund is deficient as of December 31, 2021 and 2020.

The actual trust fund balance shall be the trust fund balance at the end of the year net of any receivables by the pre-need company from the trustee for contractual benefits outstanding as at the end of the year. The trust fund deficiency shall be funded by the pre-need company within 60 days upon approval by the IC of the pre-need reserve computation submitted within 120 days from the end of calendar year.

*(c) IPR*

The Company shall at all times maintain insurance premium fund to cover its insurance premium reserves liability pertaining to premiums payable to insurance company/ies for supplemental insurance benefits under pension, education and memorial life plans other than insurance-funded benefits of memorial life plans.

*(d) Other Reserves*

A pre-need company may, as a prudent measure, set-up other reserves to cover the general administrative expenses after the paying period.

As presented below, the net asset value of the Trust Funds (see Note 11) as compared to the aggregate balance of PNR, IPR and other reserves is deficient as of December 31, 2021 and 2020.

| | **2021** | | | |
|---|---|---|---|---|
| | **Pension** | **Education** | **Life** | **Total** |
| Pre-need reserves | P 391,076,141 | P 92,459,169 | P 220,111,109 | P 703,646,419 |
| Trust funds | 298,944,728 | 75,821,529 | 169,178,471 | 543,944,728 |
| Total deficiency | **P 92,131,413** | **P 16,637,640** | **P 50,932,638** | **P 159,701,691** |
| Required funding for the period | **P 92,131,143** | **P 16,637,640** | **P 50,932,638** | **P 159,701,691** |

| | 2020 | | | |
|---|---|---|---|---|
| | Pension | Education | Life | Total |
| Pre-need reserves | P 425,461,517 | P 126,879,643 | P 198,621,118 | P 750,962,278 |
| Trust funds | 312,579,195 | 99,858,948 | 157,550,649 | 569,988,792 |
| Total deficiency | 112,882,322 | 27,020,695 | 41,070,469 | 180,973,486 |
| Divisor (in years) | 2 | 2 | 2 | 2 |
| Required funding for the period | P 56,441,161 | P 13,510,347 | P 20,535,234 | P 90,486,742 |
| TPNR | P 369,020,356 | P 113,369,295 | P 178,085,883 | P 660,475,534 |

The deficiency in the trust fund will be covered through the earnings of the trust fund accounts, however, in the event that the trust funds cannot support plan benefits, the existing cash of the Company outside the trust funds together with the fresh funds to be generated from the capital build up program may be utilized.

In compliance with Pre-need Rule disclosures, the trend of reinstatement experience on lapsed plans within the allowable reinstatement period is disclosed as follows:

| | 2021 | 2020 |
|---|---|---|
| Total premium collections | **P 240,489** | P 255,764 |
| Number of lapsed plans reinstated | **3** | 5 |
| Contract price of lapsed plans | **656,376** | 626,751 |

## 17. INSURANCE PREMIUM RESERVES

The IPR as of December 31, 2021 and 2020 consists of:

| | 2021 | 2020 |
|---|---|---|
| Life | **P 13,097,310** | 12,510,864 |
| Pension | **10,910,946** | 12,398,567 |
| Education | **296,109** | 428,900 |
| | **P 24,304,365** | P 25,338,331 |

The Company resulted in a surplus as shown below.

| | Note | 2021 | 2020 |
|---|---|---|---|
| Insurance premium fund | 14 | **P 53,104,443** | P 52,476,948 |
| Insurance premium reserve | | **( 24,304,365)** | ( 25,338,331) |
| | | **P 28,800,078** | P 27,138,617 |

Movements of IPR are as follows:

| | Note | 2021 | 2020 |
|---|---|---|---|
| Balance at beginning of year | | **P 25,338,331** | P 26,966,558 |
| Movements during the year: | | | |
| Premium received | | **71,134** | 65,952 |
| Premium payments | | **( 2,923,823)** | ( 3,431,566) |
| Interests and changes in assumption | | **1,818,723** | 1,737,387 |
| | 19 | **( 1,033,966)** | ( 1,628,227) |
| Balance at end of year | | **P 24,304,365** | P 25,338,331 |

## 18. REVENUE

The Company derived its revenue from the following major product lines and geographic region:

| | **2021** | | | |
|---|---|---|---|---|
| | **Luzon** | **Visayas** | **Mindanao** | **Total** |
| Timing of revenue recognition | | | | |
| Point in time: | | | | |
| Sale of memorial lots | P - | P 48,395,663 | P 1,580,183 | P 49,975,846 |
| Sale of columbary vaults (see Note 9) | 3,080,357 | - | - | 3,080,357 |
| Over time: | | | | |
| Marketing income | - | - | 3,705,596 | 3,705,596 |
| Internment fee | - | 8,564,487 | 4,246,172 | 12,810,659 |
| Miscellaneous | 590,294 | 1,001,041 | 509,415 | 2,100,750 |
| Based on the provisions of PNUCA: | | | | |
| Premiums | 240,489 | - | - | 240,489 |
| Income from cancelled premiums | 173,636 | 2,856,663 | 1,722,078 | 4,752,377 |
| | **P 4,084,776** | **P 60,817,854** | **P 11,763,444** | **P 76,666,074** |

| | 2020 | | | |
|---|---|---|---|---|
| | Luzon | Visayas | Mindanao | Total |
| Timing of revenue recognition | | | | |
| Point in time: | | | | |
| Sale of memorial lots | P - | P 33,799,015 | P 1,489,014 | P 35,288,029 |
| Sale of columbary vaults (see Note 9) | 6,019,339 | - | - | 6,019,339 |
| Over time: | | | | |
| Marketing income | - | - | 2,791,219 | 2,791,219 |
| Internment fee | - | 6,197,858 | 2,873,339 | 9,071,197 |
| Miscellaneous (see Note 12) | 322,166 | 746,461 | 320,704 | 1,389,331 |
| Based on the provisions of PNUCA: | | | | |
| Premiums | 255,764 | - | - | 255,764 |
| Income from cancelled premiums | - | 5,517,137 | 574,865 | 6,092,002 |
| | P 6,597,269 | P 46,260,471 | P 8,049,141 | P 60,906,881 |

## 19. DIRECT COSTS AND EXPENSES

The details of direct costs and expenses follow:

| | Notes | **2021** | 2020 |
|---|---|---|---|
| Costs of memorial lots sold | 9 | **P 55,923,909** | P 45,721,428 |
| Costs of contracts issued – net of TPNR | | **214,409,400** | 137,917,602 |
| Underwriting expenses | | **736,013** | 991,865 |
| | 20.2 | **P 271,069,322** | P 184,630,895 |

Underwriting expenses include planholders' insurance, commissions, and other expenses directly related to rendering of pre-need services.

Costs of memorial lots sold consist of the following:

| | Notes | 2021 | 2020 |
|---|---|---|---|
| Partners' share | 9, 20.2 | **P 18,584,528** | P 13,515,223 |
| Commercial and ORC – JV Memorial | 9, 20.2 | **10,226,511** | 9,922,238 |
| Cost of lots | 9, 20.2 | **8,101,803** | 7,438,430 |
| Other direct costs: | 9 | | |
| Interment fee | | **7,431,795** | 4,558,747 |
| Security and janitorial | | **5,403,411** | 4,776,492 |
| Salaries and allowances | 21.1 | **3,775,858** | 3,046,007 |
| Depreciation and amortization | 12 | **1,326,965** | 1,484,266 |
| Communications and utilities | | **986,827** | 895,651 |
| Rentals | 13.3, 20.2 | **86,211** | 84,374 |
| | 9 | **P 55,923,909** | P 45,721,428 |

Partners' share as a direct cost pertains to the share of the owner of the Bacolod lots being sold as memorial lots. Upon sale, the owner receives a percentage based on the sold lots. Commercial and ORC – JV Memorial pertains to the commissions or incentives received by the agency managers upon sale of lots.

Costs of contracts issued consist of the following:

| | Notes | 2021 | 2020 |
|---|---|---|---|
| Plan benefit expense | | **P 172,272,481** | P 193,097,112 |
| Increase (decrease) in pre-need reserves | 16 | **43,170,885** | ( 53,551,283) |
| Decrease in insurance premium reserves | 17 | **( 1,033,966)** | ( 1,628,227) |
| | 20.2 | **P 214,409,400** | P 137,917,602 |

## 20. OPERATING EXPENSES

### *20.1 General and Administrative Expenses*

The details of general and administrative expenses are as follow:

| | Notes | 2021 | 2020 |
|---|---|---|---|
| Salaries and employee benefits | 21.1 | **P 12,650,843** | P 10,364,279 |
| Professional fees | | **4,489,635** | 2,198,526 |
| Advertising and promotions | | **2,146,271** | 961,430 |
| Taxes and licenses | | **2,035,024** | 2,019,319 |
| Transportation and travel | | **1,204,182** | 497,890 |
| Management fee | | **940,400** | 1,413,768 |
| *Balance forwarded* | | **P 23,466,355** | P 17,455,212 |

| | Note | 2021 | 2020 |
|---|---|---|---|
| *Balance carried forward* | | **P 23,466,355** | P 17,455,212 |
| Depreciation and amortization | 12, 13.1 | **831,906** | 792,829 |
| Repairs and maintenance | | **524,109** | 264,309 |
| Janitorial and messengerial services | | **422,218** | 336,489 |
| Office supplies | | **389,500** | 442,727 |
| Communication and utilities | | **344,058** | 317,965 |
| Representation and entertainment | | **58,255** | 388,222 |
| Loss from litigation | | **-** | 3,900,000 |
| Others | | **2,179,474** | 1,846,760 |
| | 20.2 | **P 28,215,875** | P 25,744,513 |

### *20.2 Operating Expenses by Nature*

Operating expenses by nature are as follows:

| | Notes | 2021 | 2020 |
|---|---|---|---|
| Costs of contracts issued | 19 | **P 214,409,400** | P 137,917,602 |
| Partners' share | 9, 19 | **18,584,528** | 13,515,223 |
| Salaries and employee benefits | 21.1 | **16,426,701** | 13,410,286 |
| Commercial and ORC – JV Memorial | 9, 19 | **10,226,511** | 9,922,238 |
| Cost of lots | 9, 19 | **8,101,803** | 7,438,430 |
| Interment fee | | **7,431,795** | 4,558,747 |
| Security and janitorial | | **5,825,630** | 5,112,981 |
| Professional fees | | **4,489,635** | 2,198,526 |
| Depreciation and amortization | 12, 13.1 | **2,158,871** | 2,277,095 |
| Advertising and promotions | | **2,146,271** | 961,430 |
| Taxes and licenses | | **2,035,024** | 2,019,319 |
| Communication and utilities | | **1,330,885** | 1,213,616 |
| Transportation and travel | | **1,204,182** | 497,890 |
| Underwriting expenses | 19 | **736,013** | 991,865 |
| Office supplies | | **389,500** | 442,727 |
| Repairs and maintenance | | **524,109** | 264,309 |
| Rentals | 13.3, 19 | **86,211** | 84,374 |
| Representation and entertainment | | **58,255** | 388,222 |
| Loss from litigation | | **-** | 3,900,000 |
| Others | | **3,119,873** | 3,260,528 |
| | | **P 299,285,197** | P 210,375,408 |

These expenses are classified in the statements of comprehensive loss as follows:

| | Notes | 2021 | 2020 |
|---|---|---|---|
| Direct cost and expenses | 19 | **P 271,069,322** | P 184,630,895 |
| General and administrative expenses | 20.1 | **28,215,875** | 25,744,513 |
| | | **P 299,285,197** | P 210,375,408 |

## 21. SALARIES AND EMPLOYEE BENEFITS

### *21.1 Salaries and Employee Benefits Expense*

The details of salaries and employee benefits are presented below.

| | Notes | 2021 | 2020 |
|---|---|---|---|
| Salaries and wages | | **P 8,156,753** | P 7,135,946 |
| Retirement benefit expenses | 21.2 | **2,069,109** | 1,609,580 |
| Other employee benefits | | **6,200,839** | 4,664,760 |
| | 20.2 | **P 16,426,701** | P 13,410,286 |

The breakdown of salaries and employee benefits recognized in the statements of comprehensive loss is presented below.

| | Notes | 2021 | 2020 |
|---|---|---|---|
| General and administrative expenses | 20.1 | **P 12,650,843** | P 10,364,279 |
| Costs of memorial lots sold | 19 | **3,775,858** | 3,046,007 |
| | 20.2 | **P 16,426,701** | P 13,410,286 |

### *21.2 Post-employment Defined Benefit*

*(a) Characteristics of the Defined Benefit Plan*

The Company has a defined benefit pension plan, covering substantially all of its employees, which requires contribution from the Company to be made to a separately administered fund. The plan is administered by UCPB as trustee. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2021. Valuations are obtained on a periodic basis.

*(b) Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit obligation, or more frequently if factors indicate a material change in the assumptions.

The amounts of post-employment defined benefit asset (obligation) recognized in the statements of financial position are determined as follow:

| | 2021 | 2020 |
|---|---|---|
| Fair value of plan assets | **P 33,223,398** | P 25,130,564 |
| Present value of the obligation | **( 31,031,827)** | ( 28,955,338) |
| | **P 2,191,571** | (P 3,824,774) |

The movements in the present value of the post-employment defined benefit obligation recognized in the books are as follows:

| | 2021 | 2020 |
|---|---|---|
| Balance at beginning of year | **P 28,955,338** | P 25,161,354 |
| Current service cost | **1,703,574** | 1,625,356 |
| Interest expense | **1,141,607** | 1,164,705 |
| Actuarial losses (gains) arising from: | | |
| Changes in financial assumptions | **( 7,684,778)** | 2,471,342 |
| Changes in demographic assumptions | **4,547,831** | - |
| Experience adjustments | **2,368,255** | ( 1,467,419) |
| Balance at end of year | **P 31,031,827** | P 28,955,338 |

The movements in the fair value of plan assets are presented below.

| | 2021 | 2020 |
|---|---|---|
| Balance at beginning of year | **P 25,130,564** | P 22,912,833 |
| Contributions to the plan | **7,316,762** | 1,037,250 |
| Interest income | **776,072** | 1,180,481 |
| Balance at end of year | **P 33,223,398** | P 25,130,564 |

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | **P 14,921,602** | P 9,525,495 |
| Financial assets at FVTPL | **18,161,608** | 15,593,109 |
| Accrued interest | **43,190** | 38,631 |
| Others - net | **96,998** | ( 26,671) |
| Balance at end of year | **P 33,223,398** | P 25,130,564 |

The components of amounts recognized in profit or loss and in other comprehensive loss in respect of the defined benefit post-employment plan are as follows:

| | 2021 | 2020 |
|---|---|---|
| *Reported in profit or loss:* | | |
| Current service cost | **P 1,703,574** | P 1,625,356 |
| Net interest expense (income) | **365,535** | ( 15,776) |
| | **P 2,069,109** | P 1,609,580 |

| | 2021 | 2020 |
|---|---|---|
| *Reported in other comprehensive loss –* | | |
| Actuarial losses (gains) arising from changes in: | | |
| Financial assumptions | **(P 7,684,778)** | P 2,471,342 |
| Demographic assumptions | **4,547,831** | - |
| Experience adjustments | **2,368,255** | ( 1,467,419) |
| | **(P 768,692 )** | P 1,003,923 |

Current service and net interest income is presented as part of Salaries and employee benefits under Direct Costs and Expenses, and General and Administrative Expenses in the statements of comprehensive loss (see Note 21.1).

Amounts recognized in other comprehensive loss were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

| | 2020 | 2020 |
|---|---|---|
| Discount rate | **4.87%** | 3.95% |
| Expected rate of salary increases | **5.00%** | 5.00% |

There were no significant changes in the retirement profile, demographic and financial assumptions including among others discount and salary increase rates, and other circumstances that could materially impact the valuation and remeasurements of the Company's post-employment benefit obligation as of December 31, 2021 from the assumptions and circumstances as of December 31, 2020.

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 23. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

*(c) Risks Associated with the Retirement Plan*

The plan exposes the Company to actuarial risks such as investment and interest rate risks, longevity and salary risks and other information.

*(i) Investment and Interest Rate Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investment in short-term placement and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan assets is invested in short-term placement.

*(ii) Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

*(d) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan, which did not significantly change as of December 31 are described below.

*(i) Sensitivity Analysis*

| | Impact on Post-employment Defined Benefit Obligation | | |
|---|---|---|---|
| | **Change in Assumption** | **Increase in Assumption** | **Decrease in Assumption** |
| **2021** | | | |
| Discount rate | **+/- 1.00%** | **(P 5,565,060)** | **P 2,071,878** |
| Salary growth rate | **+/- 1.00%** | **1,674,023** | **( 5,319,597)** |
| 2020 | | | |
| Discount rate | +/- 1.00% | (P 3,488,571) | P 4,148,366 |
| Salary growth rate | +/- 1.00% | 3,750,511 | ( 3,243,109) |

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the preceding sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

*(ii) Funding Arrangements and Expected Contributions*

As of December 31, 2021 and 2020, the plan is overfunded by P2.2 million and underfunded by P3.8 million, respectively. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 20 years' time when a significant number of employees is expected to retire. The undiscounted expected benefit payments in 20 years is P138.9 million and P126.0 million as of December 31, 2021 and 2020, respectively. The Company expects to make contribution of P3.0 million to the plan during the next reporting period.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years.

## 22. TAXES

On March 26, 2021, R.A. No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company:

a. regular corporate income tax (RCIT) rate is decreased from 30% to 25% starting July 1, 2020;
b. minimum corporate income tax (MCIT) rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
c. the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

In 2021, the recognized net deferred tax assets as of December 31, 2020 was remeasured to 25%. This resulted in a decline in the recognized deferred tax asset in 2020 by P1.0 million and such was recognized in the 2021 profit or loss (P0.9 million) and in other comprehensive (P0.1 million).

The components of tax expense (income) as reported in profit or loss and other comprehensive loss are as follows:

| | **2021** | 2020 |
|---|---|---|
| *Reported in profit or loss:* | | |
| Final tax at 20% | **P 74,638** | P 61,487 |
| Deferred tax expense (income) arising from: | | |
| Effect of the change in income tax rate | **871,997** | - |
| Origination and reversal of temporary differences | **105,887** | ( 111,844) |
| | **977,884** | ( 111,844) |
| | **P 1,052,522** | (P 50,357) |

| | 2021 | 2020 |
|---|---|---|
| *Reported in other comprehensive loss –* | | |
| Deferred tax expense (income) arising from: | | |
| Origination and reversal of temporary differences | **P 192,173** | (P 301,177) |
| Effect of the change in income tax rate | **116,993** | - |
| | **P 309,166** | (P 301,177) |

The reconciliation of tax on pretax loss as reported in profit or loss computed at the applicable statutory rates to tax expense (income) reported in profit or loss is as follows:

| | 2021 | 2020 |
|---|---|---|
| Tax on pretax loss at 25% in 2021 and 30% in 2020 | **(P 52,041,518)** | (P 39,295,198) |
| Adjustment for income subject to lower income tax rate | **( 18,660)** | ( 30,743) |
| Effect of the change in income tax rate | **871,997** | - |
| Tax effects of: | | |
| Unrecognized net operating loss carry-over (NOLCO) | **68,696,458** | 80,251,936 |
| Non-taxable income | **( 16,455,755)** | ( 42,209,069) |
| Non-deductible expenses | **-** | 1,232,717 |
| Tax expense (income) | **P 1,052,522** | (P 50,357) |

The net deferred tax assets relate to the following as of December 31:

| | Statements of Financial Position | | Statements of Comprehensive Loss | | | |
|---|---|---|---|---|---|---|
| | | | Profit or Loss | | Other Comprehensive Loss | |
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| Allowance for impairment losses | **P 3,390,510** | P 4,068,611 | **P 678,101** | P - | **P -** | P - |
| Post-employment benefit obligation (asset) | **( 547,894)** | 1,147,432 | **1,386,160** | ( 171,699) | **309,166** | ( 301,177) |
| Unamortized past service cost | **1,739,112** | 652,997 | **( 1,086,115)** | 81,624 | **-** | - |
| Lease liabilities | **274,354** | 540,998 | **266,644** | 203,298 | **-** | - |
| Right-of-use assets | **( 209,201)** | ( 476,107) | **( 266,906)** | ( 225,067) | **-** | - |
| Net deferred tax assets | **P 4,646,881** | P 5,933,931 | | | | |
| Net deferred tax expense (income) | | | **P 977,884** | ( P 111,844) | **P 309,166** | (P 301,177) |

The Company is subject to MCIT or RCIT, whichever is higher. Any excess of MCIT over RCIT can be credited against RCIT for the next three succeeding taxable years. No RCIT and MCIT was recognized in 2021 and 2020 as the Company is in both gross loss and operating loss position.

In 2020, MCIT incurred in 2017 amounting to P1.0 million has already expired. Pursuant to Section 4(bbb) of R.A. No. 11494, *Bayanihan to Recover as One Act or Bayanihan Act II*, the NOLCO for taxable years 2020 and 2021 can be claimed as deduction within five consecutive years immediately following the year of such loss. The breakdown of NOLCO and the corresponding periods of deductibility from the future taxable profit are shown below.

| Year | Original Amount | Applied | Expired | Remaining Balance | Year |
|---|---|---|---|---|---|
| 2021 | P 274,785,833 | P - | P - | P274,785,833 | 2026 |
| 2020 | 267,506,452 | - | - | 267,506,452 | 2025 |
| 2019 | 250,117,691 | - | - | 250,117,691 | 2022 |
| 2018 | 235,761,545 | - | 235,761,545 | - | |
| | **P 1,028,171,521** | **P -** | **P235,761,545** | **P792,409,976** | |

The Company did not recognize the deferred tax assets arising from NOLCO amounting to P198.1 million and P226.0 million as of December 31, 2021 and 2020, respectively, as the related deferred tax assets may not be utilized within the availment periods.

In 2021 and 2020, the Company opted to claim itemized deductions in computing for its income tax due.

## 23. EQUITY

### *23.1 Capital Stock*

The Company's authorized capital stock is 500.0 million common shares with par value of P0.25 per share. As of December 31, 2021 and 2020, the total issued and outstanding capital stock of the Company is P100.0 million consisting of 400.0 million common shares.

As of December 31, 2021 and 2020, the Company has only one stockholder owning more than 100 shares of the Company's capital stock.

### *23.2 Additional Paid-in Capital*

The parent company, as approved by its BOD, provided additional capital infusion in the form of cash contribution amounting to P175.8 million and P69.8 million in 2021 and 2020, respectively, to the Company (see Note 24). The parent company infused additional capital contribution to the Company without the corresponding issuance of shares for the purpose of addressing the Company's trust fund deficiency.

### *23.3 Appropriated Retained Earnings*

The balance of retained earnings is restricted for dividend distribution to the extent of income from Trust Funds.

The amended PNUCA requires that the portion of retained earnings representing Trust Fund Income be automatically restricted to payments of benefits of plan holders and related payments as allowed in the amended PNUCA. The accumulated Trust Fund Income should be appropriated and presented separately as Appropriated Retained Earnings in the statements of changes in equity. In 2021 and 2020, the Company appropriated P0.6 million and P7.0 million, respectively, representing the Trust Fund Income earned (see Note 11).

## 24. RELATED PARTY TRANSACTIONS

The Company has transactions and agreements in the normal course of business with its related parties. A summary of the Company's transactions with its related parties as of and for the years ended December 31, 2021 and 2020 is presented below.

| | | **2021** | | 2020 | |
|---|---|---|---|---|---|
| **Related Party Category** | Notes | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance |
| **Parent Company:** | | | | | |
| Sale of columbary vaults | 14, 18 | **P 3,080,357** | **P 2,259,566** | P 6,019,339 | P 8,723,574 |
| Due to parent company | 15, 24.1 | **1,634,059** | **( 1,467,945)** | 2,261 | ( 166,114 ) |
| Capital infusion | 23.2 | **175,811,882** | **-** | 69,759,309 | - |
| Insurance claims receivables | 8, 24.2 | **-** | **1,622,859** | - | 1,622,859 |
| **Key Management Personnel –** | | | | | |
| Compensation | 24.3 | **5,362,415** | **-** | 4,858,165 | - |
| **Retirement Assets** | 24.4 | **8,092,834** | **33,223,398** | 2,303,786 | 25,130,564 |

The Company's outstanding receivables from related parties are unsecured, non-interest bearing and settled within 12 months. None of the Company's receivables with related parties has indication of impairment; hence, no impairment loss was recognized in both years.

### *24.1 Due to Parent Company*

This includes the advances from and reimbursements to the parent company in relation to the expenses incurred for the Company's Bacolod project. These expenses are, but not limited to, notarial fees, taxes such as transfer tax, and miscellaneous expenses. As of December 31, 2021 and 2020, the outstanding balance from these transactions are recognized as part of Other current liabilities under Trade and Other Payables in the statements of financial position (see Note 15).

### *24.2 Insurance Claims Receivables*

Insurance claims receivables pertain to the reimbursements of the Company from the parent company for advance payments made by the Company for pre-need plans availed by the employees of Cocolife. The outstanding balance as of December 31, 2021 and 2020 is recognized as part of Others under Receivables in the statements of financial position (see Note 8).

### *24.3 Key Management Personnel Compensation*

Key management personnel of the Company include all executive and non-executive directors and senior management. They received a total compensation amounting to P5.4 million and P4.9 million in 2021 and 2020, respectively, which are shown as part of Salaries and employee benefits presented under General and Administrative Expenses in the statements of comprehensive loss (see Note 20.1). This compensation are all short-term benefits.

### *24.4 Retirement Assets*

The Company's funded retirement plan is administered by a trustee bank. The retirement fund managed by the trustee bank includes cash, and investments in debt and equity securities with fair value totaling P33.2 million and P25.1 million as of December 31, 2021 and 2020, respectively.

The details of the Company's contributions and benefits paid out by the plan to employees are presented in Note 21.2.

## 25. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern, to provide an adequate return to the parent company by pricing products and services commensurately with the level of risk and to comply with the IC guidelines on the minimum paid-up capital requirement for existing pre-need companies. The Company is in compliance with the required paid-up capital of P100.0 million for existing pre-need companies selling three types of plan.

The Company sets the amount of capital in proportion to its overall financing structure (i.e., equity and financial liabilities). The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends to be paid to shareholders, issue new shares or sell assets to reduce debt.

Presented below is the 2021 and 2020 debt-to-equity ratio of the Company.

| | **2021** | 2020 |
|---|---|---|
| Total liabilities | **P 1,047,976,656** | P 985,607,732 |
| Total capital deficiency | **( 62,687,562)** | ( 38,611,191) |
| Debt-to-equity ratio | **16.72 : -1.00** | 25.53 : -1.00 |

## 26. COMMITMENTS AND CONTINGENCIES

### *26.1 Contingencies*

The Company is contingently liable with respect to certain lawsuits and other claims that are being contested by the Company and its legal counsel. Management and its legal counsel believe that the final resolution of these lawsuits and claims will not have a material effect on the Company's financial statements.

### *26.2 Others*

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements. As at December 31, 2021 and 2020, management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

The Company is required to contribute a certain percentage of premium received to a trust fund as approved by the IC, which in no case shall be less than what is provided by the Pre-need Code.

## 27. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)

Presented below is the supplementary information which is required by the BIR under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS and PNUCA.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are as follows:

*(a) Output VAT*

In 2021, the Company declared output VAT amounting to P7,778,419 based on total premium collections, sale of memorial lots and other income amounting to P64,820,157 .

The Company's VAT taxable revenues were determined pursuant to Section 108A, *Value-added Tax on Sale of Services and Use or Lease of Properties,* of the 1997 National Internal Revenue Code, as amended. The tax base is net of trust fund contributions; hence, these may not be the same with the amount of revenue accrued in the 2021 statement of comprehensive loss.

The outstanding VAT payable amounting to P401,913 as of December 31, 2021 is presented as part of Trade and Other Payables account in the 2021 statement of financial position.

*(b) Input VAT*

The movements in input VAT in 2021 are summarized below.

| | |
|---|---|
| Balance at beginning of year | P - |
| Goods other than for resale or manufacture | 1,423,382 |
| Applied as credit against output VAT | ( 1,423,382 ) |
| Balance at end of year | **P -** |

*(c) Taxes on Importation*

The Company did not pay or accrue customs' duties and tariff fees in 2021 as it did not have any importations during the year.

*(d) Excise Tax*

The Company did not have any transactions in 2021 which are subject to excise tax.

*(e) Documentary Stamp Tax*

The Company did not have any transactions in 2021 which are subject to documentary stamp tax.

*(f) Taxes and Licenses*

The details of taxes and licenses in 2021 are as follows:

| | | |
|---|---|---|
| Real property taxes | P | 1,123,844 |
| Municipal license and permits | | 731,148 |
| Other taxes | | 180,032 |
| | **P** | **2,035,024** |

*(g) Withholding Taxes*

The details of total withholding taxes in 2021 are shown below.

| | | |
|---|---|---|
| Expanded | P | 1,151,313 |
| Compensation and benefits | | 93,129 |
| | **P** | **1,244,442** |

The Company has no transactions subject to final withholding tax in 2021.

*(h) Deficiency Tax Assessment and Tax Cases*

As of December 31, 2021, the Company does not have any final deficiency tax assessments with the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.