

**MAA General Assurance
Philippines, Inc.**
*(A Subsidiary of MAA International Group
Ltd.)*

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
MAA General Assurance Philippines, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MAA General Assurance Philippines, Inc. (a subsidiary of MAA International Group Ltd) (the Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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



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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs 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 PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

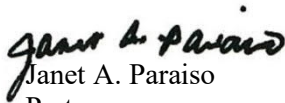


We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 35 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of MAA General Assurance Philippines, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Janet A. Paraiso

Partner

CPA Certificate No. 92305

SEC Accreditation No. 0778-AR-3 (Group A),

June 19, 2018, valid until June 18, 2021

Tax Identification No. 193-975-241

BIR Accreditation No. 08-001998-62-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125203, January 7, 2020, Makati City

March 26, 2020



MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd.)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Cash and cash equivalents (Notes 4 and 31)	₱175,524,640	₱251,797,889
Short-term investments (Notes 5 and 31)	58,426,992	57,255,978
Insurance receivables (Notes 6 and 31)	704,429,589	605,685,935
Financial assets at		
Fair value through profit or loss (FVTPL) (Note 7)	265,409,017	492,891,987
Fair value through other comprehensive income (FVOCI) (Note 8)	1,024,474,635	823,649,388
Amortized cost (Note 9)	1,341,567,085	883,700,406
Receivables (Note 10)	2,887,923	1,147,021
Accrued income (Notes 11 and 31)	23,711,120	15,345,365
Reinsurance assets (Notes 12, 20 and 31)	963,618,001	509,190,535
Deferred acquisition costs (Note 13)	241,489,330	221,968,971
Property and equipment (Note 14)	20,868,428	19,745,158
Right-of-use asset (Note 15)	13,916,889	–
Investment properties (Note 16)	60,000,000	–
Software (Note 17)	877,109	1,124,796
Retirement benefit asset (Note 29)	–	1,290,285
Deferred tax assets (Note 30)	28,099,346	26,015,464
Other assets (Note 18)	37,486,113	30,240,167
	₱4,962,786,217	₱3,941,049,345
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 20 and 31)	₱2,691,221,720	₱1,898,600,421
Insurance payables (Notes 21 and 31)	281,765,245	172,772,283
Accounts payable and other liabilities (Notes 22 and 31)	719,509,442	603,554,655
Deferred reinsurance commissions (Note 13)	11,279,529	10,603,521
Income tax payable	–	32,045,481
Lease liabilities (Note 15)	10,780,375	–
Retirement benefit liability (Note 29)	16,876,786	–
	3,731,433,097	2,717,576,361
Equity		
Capital stock (Note 24)	682,123,000	682,123,000
Contributed surplus	643,832	643,832
Contingency surplus (Note 24)	738	738
Revaluation reserve on financial assets at FVOCI (Note 8)	16,692,231	(50,237,790)
Retained earnings	531,893,319	590,943,204
	1,231,353,120	1,223,472,984
	₱4,962,786,217	₱3,941,049,345

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd.)

STATEMENTS OF INCOME

	Years Ended December 31	
	2019	2018
REVENUES		
Gross earned premiums on insurance contracts (Notes 20 and 25)	₱2,073,386,487	₱1,937,446,112
Reinsurers' share of gross earned premiums on insurance contracts (Notes 20 and 25)	(737,479,610)	(580,583,771)
Net insurance earned premiums	1,335,906,877	1,356,862,341
Investment and other income - net (Note 26)	96,435,007	44,155,987
Commission income (Note 13)	28,491,772	31,916,271
Total Revenues	1,460,833,656	1,432,934,599
BENEFITS, CLAIMS AND OTHER EXPENSES		
Gross insurance contract benefits and claims paid (Notes 20 and 27)	678,436,082	638,454,386
Reinsurers' share of gross insurance contract benefits and claims paid (Notes 20 and 27)	(177,134,496)	(78,788,425)
Gross change in insurance contract liabilities (Notes 20 and 27)	672,735,083	26,433,586
Reinsurers' share of gross change in insurance contract liabilities (Notes 20 and 27)	(443,887,962)	(60,023,166)
Net insurance benefits and claims	730,148,707	526,076,381
Commission expense (Note 13)	506,262,748	486,789,558
Operating expenses (Note 28)	225,501,237	223,938,367
Other underwriting expense (Note 28)	26,706,417	18,369,173
Interest expense	420,428	118,557
Total Benefits, Claims and Other Expenses	1,489,039,537	1,255,292,036
INCOME (LOSS) BEFORE INCOME TAX	(28,205,881)	177,642,563
PROVISION FOR INCOME TAX (Note 30)	21,901,933	39,644,522
NET INCOME (LOSS)	(₱50,107,814)	₱137,998,041

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd.)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
NET INCOME (LOSS)	(₱50,107,814)	₱137,998,041
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods (Note 8):</i>		
Changes in net unrealized gain (loss) on FVOCI debt investments	60,312,957	(37,060,005)
<i>Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:</i>		
Changes in net unrealized gain (loss) on FVOCI equity investments (Note 8)	6,617,064	(13,232,895)
Remeasurement gain (loss) on retirement benefit liability, net of tax effect (Note 29)	(8,942,071)	4,054,708
	57,987,950	(46,238,192)
TOTAL COMPREHENSIVE INCOME	₱7,880,136	₱91,759,849

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.

(A Subsidiary of MAA International Group Ltd.)

STATEMENTS OF CHANGES IN EQUITY

	Capital stock (Note 24)	Contributed surplus	Contingency surplus (Note 24)	Revaluation reserve on financial assets at FVOCI (Note 8)	Remeasurement gain (loss) on retirement benefit liability (Note 29)	Retained earnings	Total
As at January 1, 2019	₱682,123,000	₱643,832	₱738	(₱50,237,790)	₱-	₱590,943,204	₱1,223,472,984
Net loss	-	-	-	-	-	(50,107,814)	(50,107,814)
Other comprehensive income (loss)	-	-	-	66,930,021	(8,942,071)	-	57,987,950
Total comprehensive income (loss)	-	-	-	66,930,021	(8,942,071)	(50,107,814)	7,880,136
Remeasurement loss on retirement benefit liability transferred to retained earnings	-	-	-	-	8,942,071	(8,942,071)	-
As at December 31, 2019	₱682,123,000	₱643,832	₱738	₱16,692,231	₱-	₱531,893,319	₱1,231,353,120
As at January 1, 2018	₱682,123,000	₱643,832	₱738	₱55,110	₱-	₱448,890,455	₱1,131,713,135
Net income	-	-	-	-	-	137,998,041	137,998,041
Other comprehensive income (loss)	-	-	-	(50,292,900)	4,054,708	-	(46,238,192)
Total comprehensive income (loss)	-	-	-	(50,292,900)	4,054,708	137,998,041	91,759,849
Remeasurement gain on retirement benefit liability transferred to retained earnings	-	-	-	-	(4,054,708)	4,054,708	-
As at December 31, 2018	₱682,123,000	₱643,832	₱738	(₱50,237,790)	₱-	₱590,943,204	₱1,223,472,984

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	(₱28,205,881)	₱177,642,563
Adjustments for:		
Interest income (Note 26)	(98,510,398)	(66,739,584)
Gain on foreclosure of investment properties (Note 16)	(60,000,000)	–
Dividend income (Note 26)	(29,204,019)	(28,627,371)
Loss (gain) on sale of:		
Financial assets at FVOCI (Notes 8 and 26)	(2,498,244)	2,007,715
Property and equipment (Note 26)	(231,844)	(160,094)
Depreciation and amortization (Note 28)	29,108,517	3,800,271
Net change in retirement benefit liability (Note 29)	5,392,688	(2,372,691)
Interest expense	420,428	118,557
Impairment loss (reversal) (Note 26)	(4,045,132)	55,096
Net operating income (loss) before working capital changes	(187,773,885)	85,724,462
Decreases (increases) in:		
Insurance receivables	(89,674,217)	(65,046,395)
Financial assets at FVTPL	227,482,970	(29,716,968)
Receivables	(1,740,902)	31,841,740
Reinsurance assets	(454,427,466)	(79,067,144)
Deferred acquisition costs	(19,520,359)	(19,173,796)
Other assets	(24,515,884)	(5,307,877)
Increases in:		
Insurance contract liabilities	792,621,299	40,273,297
Insurance payables	108,992,962	66,222,113
Accounts payable and other liabilities	115,954,787	104,473,774
Deferred reinsurance commissions	676,008	1,972,083
Net cash generated from operations	468,075,313	132,195,289
Income tax paid	(37,759,006)	(50,595,934)
Net cash provided by operating activities	430,316,307	81,599,355
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Short-term investments	(119,852,560)	(117,599,441)
Financial assets at amortized cost	(462,887,963)	(171,250,000)
Financial assets at FVOCI	(853,990,251)	(260,820,583)
Property and equipment (Note 14)	(16,259,519)	(4,838,700)
Software (Note 17)	–	(157,698)
Proceeds from sale/maturities of:		
Short-term investments	118,678,525	115,453,367
Financial assets at FVOCI	722,593,269	214,041,277
Property and equipment (Note 14)	252,054	509,106
Interest received	89,625,921	65,172,343
Dividend received	29,722,741	28,677,463
Net cash used in investing activities	(₱492,117,783)	(₱130,812,866)

(Forward)



	Years Ended December 31	
	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of lease liabilities	(₱14,397,201)	₱-
Interest paid	(74,572)	(118,557)
Cash used in financing activities	(14,471,773)	(118,557)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(76,273,249)	(49,332,068)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	251,797,889	301,129,957
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱175,524,640	₱251,797,889

See accompanying Notes to Financial Statements.



MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd.)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

MAA General Assurance Philippines, Inc. (the Company), a corporation duly organized and existing under Philippine laws, is engaged in the business of nonlife insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events. It includes lines such as fire and allied perils, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with and incident to the aforementioned lines. The Company is a majority owned subsidiary of MAA International Group Ltd. (the Parent Company), a company incorporated in Malaysia. The Company's intermediate and ultimate parent company, which are both incorporated in Malaysia, are MAA Corporation Sdn Bhd and MAA Group Berhad, respectively.

The Company was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 1950. In a special Board of Directors' (BOD) meeting held on August 8, 1999, it was approved that the Articles of Incorporation will be amended to extend the existence of the Company to another fifty years from its original expiry date. The Philippine SEC approved the Amended Articles of Incorporation in 2000.

The registered office address of the Company is 10th Floor, Pearl Bank Centre Building, 146 Valero Street, Salcedo Village, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD on March 26, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and investment properties which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency. All values are rounded off to the nearest peso values, unless otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Presentation of Financial Statements

The statements of the financial position of the Company is presented in order of liquidity. An analysis regarding the recovery of assets or settlement of liabilities within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (noncurrent) is presented in Note 23.



Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs 2015-2017 Cycle*
 - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
 - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
 - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

The Company has lease contracts for its office space and printer equipment. Before the adoption of PFRS 16, the Company classified its leases (as lessee) at the inception date as operating leases. Refer to Note 2 for the accounting policy prior to January 1, 2019.

The Company adopted PFRS 16 using the modified retrospective approach upon adoption as at January 1, 2019 and elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company therefore did not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The effect of adoption of PFRS 16 as at January 1, 2019 is as follows:

	Increase (decrease)
Right-of-use asset	₱12,757,031
Other assets (representing advance rental payments)	(2,829,960)
Lease liabilities	9,927,071



Leases previously accounted for as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- (a) Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (b) Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- (c) Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

The lease liability at as January 1, 2019 as can be reconciled to the operating lease commitments as of December 31, 2018 follows:

Operating lease commitments, December 31, 2018 (PAS 17)	₱11,738,627
Leases of low-value assets	(1,597,946)
<hr/>	
Operating lease liabilities before discounting	10,140,681
Discounting impact using incremental borrowing rates	(213,610)
<i>Weighted average incremental borrowing rate</i>	
<i>as at January 1, 2019</i>	7.00%
<hr/> <hr/>	
Lease liabilities, January 1, 2019	<u>₱9,927,071</u>

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.



Based on the Company's assessment, it has no material uncertain tax treatments, accordingly, the adoption of this Interpretation has no significant impact on the financial statements.

Product Classification

Insurance Contracts

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired.

Fair Value Measurement

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

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

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

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

If the asset or liability measured at fair value has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

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

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



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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (see Note 31).

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Short-term Investments

Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

Financial Instruments - Initial Recognition

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition and measurement

All financial instruments are initially measured at fair value. Except for financial assets at FVTPL, the initial measurement of financial instruments includes transaction costs.

Financial Instruments - Classification and Subsequent Measurement

The Company classifies its financial assets in the following categories: financial assets at FVTPL, financial assets at FVOCI and financial assets measured at amortized cost while financial liabilities are classified as financial liabilities at amortized cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.



Subsequent to initial recognition, the Company may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

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

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

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

Financial assets at amortized cost (debt instruments)

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

The Company's financial assets at amortized cost includes investments in government and private quoted debt securities, insurance receivables and other receivables.

FVOCI (debt instruments)

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to statement of income.

The Company's debt instruments at fair value through OCI includes investments in government and corporate quoted debt securities.



FVOCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as 'Dividends' under 'Investment and other income-net' in the statement of income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated FVOCI are not subject to impairment assessment.

The Company elected to irrevocably classify its internally-managed listed equity investments and externally-managed listed preferred equity investments under this category.

Financial assets at FVTPL

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

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of income.

This category includes listed equity investments which the Company had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are also recognized as 'Dividends' under 'Investment and other income - net' in the statement of income when the right of payment has been established.

Insurance Receivables

Insurance receivables are consisted of 'Due from brokers and agents', 'Due from ceding companies', 'Funds held by ceding companies' and 'Reinsurance recoverable on paid losses.' These are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost. Any credit losses on insurance receivables are also recognized as 'Provision for credit losses' under 'Operating expenses' in statement of income. Insurance receivables are derecognized following the derecognition criteria of financial assets.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVTPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method.



This accounting policy applies primarily to the Company's insurance payables and accounts payable and other liabilities that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement benefit liability).

Impairment of Financial Assets

The Company recognizes an allowance for expected credit losses (ECL) for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For insurance receivables (excluding reinsurance assets), the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company's debt instruments at FVOCI comprise solely of quoted bonds that are graded in the top investment category (high grade) by Philippine Rating Services Corporation and, therefore, are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company uses the ratings from the Philippine Rating Services Corporation to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of Financial Assets and Liabilities

Financial Asset

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

- the rights to receive cash flows from the asset have expired;



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

Where the Company has transferred its right to receive cash flows from an asset and has either transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of guarantee over the transferred assets is measured at the lower of the original carrying amount of the assets and the maximum amount of consideration that the Company could be required to pay.

Financial Liability

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

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Reinsurance Assets

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged in the statements of income.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized in the statements of income as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

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



Deferred Acquisition Costs (DAC)

Commissions and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method over the life of the contract. For policies with policy duration less than one year or more than one year, the DAC considers the actual DAC from the date of valuation to the date of termination of policies. Amortization is recognized as 'Commission expense' in the statements of income. The unamortized acquisition costs are shown as 'Deferred acquisition costs' in the assets section of the statement of financial position.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. The carrying amount is written down to the recoverable amount. The impairment loss is charged to profit or loss. DAC is also considered in the liability adequacy test at each reporting period.

DAC is derecognized when the related contracts are settled or disposed.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged against profit or loss during the financial period in which they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the properties, or the term of the lease, whichever is shorter, for leasehold improvements, as follows:

	Years
Transportation equipment	5-10
Computer equipment	5
Office furniture, fixtures and equipment	5
Building	20
Leasehold improvements	5*

**or lease term, whichever is shorter*

The estimated useful lives and depreciation method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against profit or loss.



Investment properties

Investment properties are properties held for capital appreciation.

Investment properties are measured initially at acquisition cost which comprise its purchase price and directly attributable cost incurred. Investment properties acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, are measured initially at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

Subsequently, investment properties are accounted for under the fair value model. It is revalued and reported in the statement of financial position at its market value as determined by an independent appraisal company, with changes in market value recognized in the statement of income. The carrying amounts recognized in the statement of financial position reflect the prevailing market conditions at the reporting date.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the statement of income in the year of retirement or disposal.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

Software

Costs associated with the acquisition of computer software are capitalized only if the asset can be reliably measured, will generate future economic benefits, and there is an ability to use or sell the asset.

Computer software is carried at cost less accumulated amortization. Computer software cost is amortized over the expected useful life of the asset, but not to exceed five (5) years. All computer software components are amortized over five (5) years. Amortization commences when the asset is available for use or when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Company.

Creditable Withholding Taxes (CWTs)

Creditable withholding pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under 'Other assets' account.

At each tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of these CWTs.

Impairment of Nonfinancial Assets

The Company assesses at each end of the reporting period whether there is an indication that property and equipment, right-of-use asset, software and other assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual



asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Insurance Contract Liabilities

Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Provision for Unearned Premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as 'Provision for unearned premiums' and presented as part of 'Insurance contract liabilities' in the liability section of the statement of financial position. Unearned premium reserve (UPR) is calculated based on the 24th method for all classes of business, on a gross of reinsurance basis. For policies with policy duration less than one year or more than one year, the UPR considers the actual unearned premiums from the date of valuation to the date of termination of policies. 'Gross change in provision for unearned premiums' account is taken to profit or loss in order that revenue is recognized over the period of risk.

Claims Provision and Incurred But Not Reported (IBNR) Losses

Outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money and includes provision for claims reported IBNR and Margin for Adverse Deviation (MfAD). The provision claims liability is based on the adjusters' report on the individual claims and the provision claims IBNR is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions. Meanwhile, MfAD is calculated using a range of standard actuarial claim projection techniques, and is a provision for liabilities due to inherently uncertain events. No provision for equalization or catastrophic reserves is recognized. The liabilities are derecognized when the contract is discharged, cancelled, or has expired.



Retirement Asset/Liability

The net defined benefit asset or liability is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements are closed to Retained earnings at the end of every reporting date.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Equity

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

Contributed surplus represents original contributions of the stockholders of the Company in addition to the paid-in capital stock in order to comply with the pre-licensing requirements.



Contingency surplus pertains to capital infusions of shareholders in order to comply with Margin of Solvency (MOS) deficiency as a result of the examination made by the Insurance Commission (IC).

Retained earnings include all the accumulated earnings of the Company.

Revenue Recognition

Revenue from contracts with customers, if any, is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for goods or services. The following specific recognition criteria must be met before revenue is recognized:

Premium revenue

Gross premiums on insurance contracts comprise the total premiums for the whole period of cover provided by insurance contracts entered into during the accounting period and are recognized on the date on which the policies incept. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from past experience and are included in premiums written.

Premiums from insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Provision for unearned premiums' and presented as part of 'Insurance contract liabilities' in the liabilities section of the statement of financial position.

Reinsurance Premiums

Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognized on the date which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

The related reinsurance premiums ceded that pertain to the unexpired periods at reporting date are accounted for as 'Deferred reinsurance premiums' shown as part of 'Reinsurance assets' presented in the assets section of the statement of financial position.

Reinsurance premiums and claims on the face of the statement of income have been presented as negative items within premiums and net benefits and claims, respectively, because this is consistent with how the business is managed.

Commission income

Commissions earned from insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as 'Deferred reinsurance commissions' and presented in the liabilities section of the statement of financial position.

Investment income

- Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest method.
- Dividend income is recognized when the shareholders' right to receive the payment is established.



Other income

All other income items are recognized in the statement of income when earned.

Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Benefits and Claims

Gross benefits and claims consist of benefits and claims paid to policyholders, which include changes in the valuation of insurance contract liabilities, except for changes in the provision for unearned premiums which are included in the net earned premiums. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage, recoveries and subrogation are also considered and reduce benefits and claims payable. General insurance claims are recorded on the basis of notifications received.

Commission expense

Commissions incurred from insurance contracts are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as 'Deferred acquisition costs' and presented in the asset section of the statement of financial position.

Other Expenses

Other underwriting expenses, operating expenses and interest expense, except for lease agreements, are recognized as expense as they are incurred.

Leases

Policy applicable beginning January 1, 2019

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are subject to impairment. Refer to the accounting policies in section *Impairment of non-financial assets*.



ii. Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest recognized under Interest expense and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii. Leases of low-value assets

The Company applies the lease of low-value assets recognition exemption to leases of printer equipment (i.e. ₱250,000 and below). Lease payments on leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Policy applicable prior to January 1, 2019

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised or extension is granted, unless that term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario (b).

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments on operating leases are recognized on a straight-line basis over the lease term.

Foreign Exchange Transactions

The functional and presentation currency of the Company is the Philippine Peso (₱). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. Differences arising from translation of monetary assets are taken to profit or loss.



Income Tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each end of the reporting period and reduced 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 asset to be utilized. Unrecognized deferred tax assets are reassessed at each end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. Movements in the deferred tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

Current tax and deferred tax relating to items recognized as OCI are also recognized in the statement of comprehensive income.

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

Value-added Tax (VAT)

The input VAT tax pertains to the 12% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the sale of insurance policies and other goods or services by the Company.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under 'Accounts payable and other liabilities' account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under 'Other assets' account.



Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Events after the Reporting Period

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

Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.



An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2023

- IFRS 17, *Insurance Contracts*

IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

In its March 17, 2020 meeting, the International Accounting Standards Board (IASB) deferred the effective date of IFRS 17 to reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

The Company is currently assessing the impact of this standard.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRSs requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

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.

Judgments

Classification of Financial Assets

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

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

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Expected frequency, value and timing of sales

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

Estimates

Valuation of insurance contract liabilities

Estimates have to be made at the reporting date for both the expected ultimate cost of both claims reported and claims IBNR. It can take a significant period of time before the ultimate claim cost can be established with certainty and for some types of policies, IBNR claims form the majority of the claims provision. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to profit or loss.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques such as Chain Ladder method and Bornhuetter-Ferguson method based on paid and reported claims information.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by significant business lines and claim types. Large claims are usually separately addressed, either by



being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

As at December 31, 2019 and 2018, the carrying values of insurance contract liabilities are disclosed in Note 20.

Impairment of insurance receivables

The Company uses a simplified approach in the calculation of its ECL on its insurance receivables by using a provision matrix that specifies the fixed provision rates. It considers how the current and forward-looking information might affect the customer's historical default rates and consequently, how the information would affect the current expectations and estimates of ECLs.

Historical credit loss rate is computed using the net flow rate of the ageing of receivables based on the number of days it is past due. Whereas, forward looking rate is derived by using forecast information of macroeconomic factors such as gross domestic product and inflation rates through regression analysis.

The assessment of the correlation amongst the historical credit loss rates, forecast economic conditions and ECL is a significant estimate. Thereby, changes in circumstances and forecast on economic conditions will greatly impact the ECL calculation which later on may not be a representation of the customer's actual default in the future.

As at December 31, 2019 and 2018, the carrying values of insurance receivables and related allowance for credit losses are disclosed in Notes 6 and 19.

Estimation of retirement benefit liability

The cost of defined benefit obligation and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates and future salary increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The discount rates used were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payout as at statement of financial position date. Future salary increases are based on historical annual merit, market and promotional increase and expected future inflation rates.

As at December 31, 2019 and 2018, the retirement benefit liability and the key assumptions in determining the present value of the defined benefit obligation of the Company are disclosed in Note 29.

Recognition of deferred tax assets

Deferred tax assets are recognized in respect of the temporary differences to the extent that there are sufficient taxable temporary differences relating to the same taxation authority which are expected to reverse in the same period as the expected reversal of the deductible temporary differences or to the extent that it is probable that future taxable profit will be available against which these can be utilized. Significant management judgement is required to determine the amount of deferred tax



assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

In 2019, the Company is in a tax loss position. As at December 31, 2019, the Company did not recognize deferred tax assets on NOLCO and excess MCIT as the Company assessed that it is not probable that it will be able to recognize the tax benefits prior to expiry. The Company's recognized and unrecognized deferred tax assets on deductible temporary differences are disclosed in Note 30.

Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

As at December 31, 2019, the Company's lease liabilities are disclosed in Note 15.

4. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand and in banks	₱86,043,408	₱184,047,143
Short-term deposits	90,289,024	68,926,847
	176,332,432	252,973,990
Less allowance for credit losses (Note 19)	807,792	1,176,101
	₱175,524,640	₱251,797,889

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are money market placements maturing three months or less from the date of acquisition, but with varying periods depending on the immediate cash requirements of the Company and earn interest at rates ranging from 0.38% to 6.25% and from 0.88% to 5.25% in 2019 and 2018, respectively.

Interest income earned from this account amounted to ₱7,875,284 and ₱4,814,258 in 2019 and 2018, respectively (see Note 26).

5. Short-term Investments

This account consists of:

	2019	2018
Short-term investments	₱58,701,167	₱57,527,132
Less allowance for credit losses (Note 19)	274,175	271,154
	₱58,426,992	₱57,255,978



Short-term investments represent time deposits with maturities of more than three months but not more than one year from dates of placement and earned interest at annual rates ranging from 0.75% to 4.25% both in 2019 and 2018.

Interest income from short-term investments amounted to ₱761,305 and ₱700,676 in 2019 and 2018, respectively (see Note 26).

6. Insurance Receivables

This account consists of:

	2019	2018
Due from brokers and agents	₱654,052,691	₱567,880,109
Funds held by ceding companies	7,678,095	4,288,595
Premiums due from ceding companies	4,845,154	6,748,071
Reinsurance recoverable on paid losses	42,032,269	40,017,217
	708,608,209	618,933,992
Less allowance for credit losses (Note 19)	4,178,620	13,248,057
	₱704,429,589	₱605,685,935

The following table shows aging information of insurance receivables:

	2019					Total
	1 to 30 days	31 to 90 days	91 to 180 days	181 to 240 days	241 days above	
Due from brokers and agents	₱186,117,598	₱273,106,202	₱138,940,388	₱29,317,367	₱26,571,136	₱654,052,691
Funds held by ceding companies	3,389,500	-	-	-	4,288,595	7,678,095
Due from ceding companies	122,245	1,194,802	1,882,299	746,521	899,287	4,845,154
Reinsurance recoverable on paid losses	778,199	30,007,658	8,256,694	2,808,377	181,341	42,032,269
	₱190,407,542	304,308,662	₱149,079,381	₱32,872,265	₱31,940,359	₱708,608,209

	2018					Total
	1 to 30 days	31 to 90 days	91 to 180 days	181 to 240 days	241 days above	
Due from brokers and agents	₱185,427,442	₱195,991,767	₱129,714,014	₱25,184,150	₱31,562,736	₱567,880,109
Funds held by ceding companies	-	-	-	4,288,595	-	4,288,595
Due from ceding companies	349,389	847,900	3,913,192	294,867	1,342,723	6,748,071
Reinsurance recoverable on paid losses	18,914,722	2,027,501	840,169	9,755,471	8,479,354	40,017,217
	₱204,691,553	₱198,867,168	₱134,467,375	₱39,523,083	₱41,384,813	₱618,933,992

7. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss pertains to the Company's listed shares amounting to ₱265,409,017 and ₱492,891,987 as of December 31, 2019 and 2018, respectively.

The Company recognized fair value losses on these financial assets amounting to ₱25,605,620 and ₱51,554,773 in 2019 and 2018, respectively (see Note 26). Dividend income on these financial assets amounted to ₱9,830,617 and ₱10,868,212 in 2019 and 2018, respectively (see Note 26).



8. Financial assets at fair value through other comprehensive income

Financial assets at FVOCI consist of:

	2019	2018
<u>Investments in debt instruments</u>		
Government debt securities	₱647,985,646	₱491,958,367
Corporate debt securities	52,104,093	47,433,189
	700,089,739	539,391,556
<u>Investments in equity instruments</u>		
<i>Listed shares</i>		
San Miguel Corporation Preferred Series 2C	54,250,000	53,200,000
Ayala Corporation Preferred B Series 2	49,900,000	49,900,000
San Miguel Purefoods Perpetual Preferred Series 2	49,850,000	49,850,000
San Miguel Corporation Preferred Series 2H	36,571,865	36,303,850
Petron Corporation Perpetual Preferred Series 3B	31,650,000	-
Petron Corporation Perpetual Preferred Series 3A	30,930,000	-
Phoenix Perpetual Preferred Series 4	19,418,000	-
San Miguel Corporation Preferred Series 2H	16,135,750	16,017,500
San Miguel Corporation Preferred Series 2E	10,010,000	9,490,000
Ayala Corporation Preferred B Series 1	9,980,000	8,900,000
Alabang Country Club Series B	7,300,000	-
Sta. Elena Golf Club Shares	5,500,000	5,700,000
San Miguel Corporation Preferred Series 2I	1,334,048	1,303,890
San Miguel Corporation Preferred Series 2F	1,256,006	1,242,750
National Reinsurance Corporation of the Philippines	246,344	270,088
SM Prime Holdings, Inc.	8,883	7,554
Petron Corporation Perpetual Preferred Series 2A	-	52,028,200
<i>Others</i>	44,000	44,000
	324,384,896	284,257,832
	₱1,024,474,635	₱823,649,388

As of December 31, 2019 and 2018, the unrealized gains (losses) on financial assets recognized as 'Revaluation reserve on financial assets at FVOCI' in the statement of financial position amounted to ₱16,692,231 and (₱50,237,790), respectively.

Dividend income on equity instruments amounted to ₱19,373,402 and ₱17,759,159 in 2019 and 2018, respectively (see Note 26).

Government debt securities include fixed rate treasury notes and retail treasury bonds that bear interest rates per annum ranging from 3.50% to 8.00% and from 3.25% to 8.00% as of December 31, 2019 and 2018, respectively, and have maturities ranging from 2022 to 2040.



Corporate debt securities consist of fixed term debt instruments with annual interest rates ranging from 3.92% to 7.15% and from 3.92% to 8.00% as of December 31, 2019 and 2018, respectively, and have maturities ranging from 2020 to 2026.

Interest income earned from these debt instruments amounted to ₱30,724,346 and ₱25,128,390 in 2019 and 2018, respectively (see Note 26).

The rollforward of revaluation reserve on financial assets at FVOCI in 2019 follows:

	2019	2018
Beginning of the period	(₱50,237,790)	₱55,110
Changes in fair values during the year	69,363,914	(52,359,542)
Impairment loss on FVOCI debt financial assets recognized in profit or loss (Note 26)	64,351	58,927
Realized losses (gains) on sale of FVOCI debt financial assets (Note 26)	(2,498,244)	2,007,715
End of period	₱16,692,231	(₱50,237,790)

9. Financial assets at amortized cost

This account consists of:

	2019	2018
Government debt securities	₱140,000,000	₱140,000,000
Corporate debt securities	1,212,997,963	750,110,000
	1,352,997,963	890,110,000
Less: Allowance for credit losses (Note 19)		
Government debt securities	153,173	153,173
Corporate debt securities	11,277,705	6,256,421
	11,430,878	6,409,594
	₱1,341,567,085	₱883,700,406

Government debt securities include fixed rate treasury notes and retail treasury bonds that bear interest rates per annum ranging from 3.50% to 3.63% in both 2019 and 2018 and have maturities ranging from 2026 to 2033.

Corporate debt securities consist of fixed term debt instruments with annual interest rates ranging from 3.92% to 8.00% in both 2019 and 2018 and have maturities ranging from 2021 to 2027.

Interest income earned from these debt instruments amounted to ₱59,149,463 and ₱36,096,260 in 2019 and 2018, respectively (see Note 26).

10. Receivables

This account consists of salary loans granted to employees which are non-interest bearing and payable to the Company within one year through payroll deduction.

As of December 31, 2019 and 2018, the Company's outstanding receivables are all due within one year.



11. Accrued Income

This account consists of:

	2019	2018
Accrued interest receivable	₱20,766,032	₱11,881,555
Dividend receivable	2,945,088	3,463,810
	₱23,711,120	₱15,345,365

Interest receivable arises from the Company's short-term deposits and investments in government and private debt securities. Dividend receivable arises from the Company's investment in preferred shares.

12. Reinsurance Assets

This account consists of the following:

	2019	2018
Reinsurance recoverable on unpaid losses (Note 20)	₱861,693,343	₱417,805,381
Deferred reinsurance premiums (Note 20)	101,924,658	91,385,154
	₱963,618,001	₱509,190,535

13. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs

The movements in this account follow:

	2019	2018
Balances at beginning of year	₱221,968,971	₱202,795,175
Costs deferred during the year	525,783,107	505,963,354
Amortization during the year	(506,262,748)	(486,789,558)
Balances at end of year	₱241,489,330	₱221,968,971

Deferred Reinsurance Commissions

The movements in this account follow:

	2019	2018
Balances at beginning of year	₱10,603,521	₱8,631,438
Income deferred during the year	29,167,780	33,888,354
Amortization during the year	(28,491,772)	(31,916,271)
Balances at end of year	₱11,279,529	₱10,603,521



14. Property and Equipment

The composition of and movement in the Company's property and equipment follow:

	2019					
	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2019	₱13,877,857	₱9,106,708	₱7,083,654	₱8,570,383	₱9,750,000	₱48,388,602
Additions	1,390,179	10,069,112	673,440	4,126,788	–	16,259,519
Disposals	(690,179)	–	(45,313)	(25,958)	–	(761,450)
At December 31, 2019	14,577,857	19,175,820	7,711,781	12,671,213	9,750,000	63,886,671
Accumulated depreciation and amortization						
At January 1, 2019	6,691,077	7,889,397	3,485,077	6,908,101	3,669,792	28,643,444
Depreciation (Note 28)	988,360	11,153,218	1,386,552	1,100,409	487,500	15,116,039
Disposals	(690,179)	–	(25,103)	(25,958)	–	(741,240)
At December 31, 2019	6,989,258	19,042,615	4,846,526	7,982,552	4,157,292	43,018,243
Net book values as of December 31, 2019	₱7,588,599	₱133,205	₱2,865,255	₱4,688,661	₱5,592,708	₱20,868,428
	2018					
	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2018	₱12,689,464	₱7,943,741	₱6,469,364	₱8,331,656	₱9,750,000	₱45,184,225
Additions	1,488,393	1,216,985	1,580,748	552,574	–	4,838,700
Disposals	(300,000)	(54,018)	(966,458)	(313,847)	–	(1,634,323)
At December 31, 2018	13,877,857	9,106,708	7,083,654	8,570,383	9,750,000	48,388,602
Accumulated depreciation and amortization						
At January 1, 2018	6,106,696	7,746,233	2,870,981	6,493,624	3,182,292	26,399,826
Depreciation (Note 28)	884,380	143,164	1,328,393	685,492	487,500	3,528,929
Disposals	(299,999)	–	(714,297)	(271,015)	–	(1,285,311)
At December 31, 2018	6,691,077	7,889,397	3,485,077	6,908,101	3,669,792	28,643,444
Net book values as of December 31, 2018	₱7,186,780	₱1,217,311	₱3,598,577	₱1,662,282	₱6,080,208	₱19,745,158

In 2019 and 2018, gains on sale of property and equipment recognized in 'Investment and other income - net' in the statement of income amounted to ₱231,844 and ₱160,094, respectively (see Note 26).

As of December 31, 2019 and 2018, the costs of fully depreciated property and equipment still in use amounted to ₱29,476,471 and ₱17,472,432, respectively.

15. Right-of-use Asset and Lease Liabilities

The Company has lease contracts for its office spaces used in operations which generally have lease terms of 1 to 5 years. The Company also has leases of printer equipment which are considered low value assets. The Company applies the 'lease of low-value assets' recognition exemptions for these leases.



The rollforward analysis of right-of-use asset account follows:

Cost	
Balance at beginning of year	₱-
Effect of adoption of PFRS 16 (Note 2)	12,757,031
Additions	14,904,649
Balance at end of year	27,661,680
Accumulated depreciation	
Balance at beginning of year	-
Depreciation (Note 28)	(13,744,791)
Balance at end of year	(13,744,791)
Net book value	₱13,916,889

The rollforward analysis of lease liabilities account follows:

Balance at beginning of year	₱-
Effect of adoption of PFRS 16 (Note 2)	9,927,071
Additions	14,904,649
Interest expense	345,856
Payments	(14,397,201)
Balance at end of year	₱10,780,375

Shown below is the maturity analysis of the undiscounted lease payments:

	2019	2018
Within 1 year	₱9,662,780	₱10,099,603
More than 1 year to 2 years	1,088,669	919,977
More than 2 years to 3 years	345,282	495,161
More than 3 years to 4 years	-	223,886
	₱11,096,731	₱11,738,627

16. Investment Properties

In November 2019, the Company acquired certain condominium units at an execution sale in satisfaction of an award adjudged by the court. This stemmed from a civil case for recovery filed by the Company against its principal under a suretyship contract.

These condominium units with fair value amounting to ₱60,000,000 are classified as Investment properties in the statement of financial position as of December 31, 2019 and recognized as a reduction of 'Gross insurance contract benefits and claims paid' in the statement of income for the year ended December 31, 2019. The fair value of investment properties is determined using the market data approach that reflects observable and recent transaction prices for similar properties in nearby locations, with adjustments for differences in key attributes such as property size, zoning, accessibility and amenities.

No rental income or direct operating expenses related to the investment properties were recognized in the statements of income for the year ended December 31, 2019.



17. Software

The movements in this account follow:

	2019	2018
Cost		
Balances at beginning of year	₱1,396,138	₱1,238,440
Additions	–	157,698
Balances at end of year	1,396,138	1,396,138
Accumulated amortization		
Balances at beginning of year	271,342	–
Amortization (Note 28)	247,687	271,342
Balances at end of year	519,029	271,342
Net book value	₱877,109	₱1,124,796

18. Other Assets

This account consists of:

	2019	2018
Creditable withholding tax	₱25,760,445	₱11,320,470
Security deposits	8,528,483	11,421,630
Claims fund	2,137,162	2,137,162
Prepaid expenses	989,308	57,753
Security fund	70,715	70,715
Advance payment to contractors	–	5,232,437
	₱37,486,113	₱30,240,167

19. Allowance for Credit Losses

The breakdown of allowance for credit losses is shown in the table below:

	2019	2018
Cash in banks and short-term investments (Notes 4 and 5)	₱1,081,967	₱1,447,255
Due from brokers and agents (Note 6)	3,369,184	5,583,108
Due from and funds held by ceding companies (Note 6)	797,995	596,439
Reinsurance recoverable on paid and unpaid losses (Note 6)	11,441	7,068,510
Financial assets at amortized cost (Note 9)	11,430,878	6,409,594
Debt instruments at FVOCI (Note 8)*	903,240	838,889
	₱17,594,705	₱21,943,795

*ECL for debt instrument at FVOCI is recognized against 'Revaluation reserve on financial assets at FVOCI' and not through an allowance account.



The Company applied the requirements of general ECL model under PFRS 9 for its investments and placements (i.e. cash in banks, short-term investments, financial assets at amortized cost and debt instruments at FVOCI) while simplified ECL approach for due from brokers and agents and due from and funds held by ceding companies. For reinsurance recoverable on paid and unpaid losses, the Company applied the incurred loss model under PAS 39.

An analysis of changes in gross amounts and the corresponding ECLs is as follows:

Investments and placements

General ECL model

	Stage 1	
	2019	2018
Gross amounts as at January 1	₱1,740,002,678	₱1,609,750,548
New assets originated or purchased	2,309,277,793	1,280,589,848
Assets derecognized or matured	(1,795,773,885)	(1,113,261,981)
Other movements	34,614,715	(37,075,737)
Gross amounts as at December 31	₱2,288,121,301	₱1,740,002,678

	Stage 1	
	2019	2018
ECL amounts as at January 1	₱8,695,738	₱7,464,541
New assets originated or purchased	11,314,929	5,696,017
Assets derecognized or matured	(6,466,028)	(4,506,373)
Change in ECL assumptions	(128,554)	41,553
ECL amounts as at December 31	₱13,416,085	₱8,695,738

In 2019 and 2018, there were no write-offs or transfers between stages for investments and placements.

Due from brokers and agents and due from and funds held by ceding companies

Simplified ECL approach

	2019	2018
Gross amounts as at January 1	₱578,916,775	₱544,193,512
New assets originated or purchased	2,624,822,105	2,546,315,022
Assets derecognized or matured	(2,537,162,940)	(2,511,591,759)
Gross amounts as at December 31	₱666,575,940	₱578,916,775

	2019	2018
ECL amounts as at January 1	₱6,179,547	₱8,445,864
New assets originated or purchased	14,566,245	25,034,072
Assets derecognized or matured	(14,027,623)	(24,692,691)
Change in ECL assumptions	(2,550,990)	(2,607,698)
ECL amounts as at December 31	₱4,167,179	₱6,179,547

In 2019 and 2018, there were no write-offs for due from brokers and agents and due from and funds held by ceding companies.



Reinsurance recoverable on paid and unpaid losses

Allowance recognized on reinsurance recoverable on paid and unpaid losses is determined using incurred loss approach under PAS 39. The following is a reconciliation of the changes in allowance for credit losses for reinsurance recoverable on paid and unpaid losses:

	2019	2018
Balances at beginning of year	₱7,068,510	₱18,283,131
Provision for (reversal of) credit losses	(7,057,069)	3,367,318
Write-offs	-	(14,581,939)
Balances at end of year	11,441	7,068,510
Individually impaired	-	6,320,249
Collectively impaired	11,441	748,261
	₱11,441	₱7,068,510

20. Insurance Contract Liabilities

Insurance contract liabilities are analyzed as follows:

	2019			2018		
	Insurance contract liabilities	Reinsurers' share of liabilities (Note 12)	Net	Insurance contract liabilities	Reinsurers' share of liabilities (Note 12)	Net
Provision for claims reported and loss adjustment expenses	₱1,397,031,150	₱542,254,329	₱854,776,821	₱928,084,306	₱279,844,008	₱648,240,298
Provision for IBNR losses	411,991,005	319,439,014	92,551,991	208,202,766	137,961,373	70,241,393
Total claims reported and IBNR	1,809,022,155	861,693,343	947,328,812	1,136,287,072	417,805,381	718,481,691
Provision for unearned premiums	882,199,565	101,924,658	780,274,907	762,313,349	91,385,154	670,928,195
Total insurance contract liabilities	₱2,691,221,720	₱963,618,001	₱1,727,603,719	₱1,898,600,421	₱509,190,535	₱1,389,409,886

Provisions for claims reported by policyholders and IBNR are analyzed as follows:

	2019			2018		
	Insurance contract liabilities	Reinsurers' share of liabilities (Note 12)	Net	Insurance contract liabilities	Reinsurers' share of liabilities (Note 12)	Net
Balance at beginning of year	₱1,136,287,072	₱417,805,381	₱718,481,691	₱1,109,853,486	₱357,782,215	₱752,071,271
Claims incurred during the year	1,147,382,926	439,544,817	707,838,109	582,042,242	69,889,951	512,152,291
Claims paid during the year-net of salvage and subrogation (Note 27)	(678,436,082)	(177,134,496)	(501,301,586)	(638,454,386)	(78,788,425)	(559,665,961)
Increase (decrease) in IBNR (Note 27)	203,788,239	181,477,641	22,310,598	82,845,730	68,921,640	13,924,090
Balance at end of year	₱1,809,022,155	₱861,693,343	₱947,328,812	₱1,136,287,072	₱417,805,381	₱718,481,691



Provision for unearned premiums may be analyzed as follows:

	2019			2018		
	Insurance contract liabilities	Reinsurers' share of liabilities (Note 12)	Net	Insurance contract liabilities	Reinsurers' share of liabilities (Note 12)	Net
Balance at beginning of year	₱762,313,349	₱91,385,154	₱670,928,195	₱748,473,638	₱72,341,176	₱676,132,462
New policies written during the year (Note 25)	2,193,272,703	748,019,114	1,445,253,589	1,951,285,823	599,627,749	1,351,658,074
Premiums earned during the year (Note 25)	(2,073,386,487)	(737,479,610)	(1,335,906,877)	(1,937,446,112)	(580,583,771)	(1,356,862,341)
Balance at end of year	₱882,199,565	₱101,924,658	₱780,274,907	₱762,313,349	₱91,385,154	₱670,928,195

21. Insurance Payables

Due to reinsurers and ceding companies amounted to ₱281,765,245 and ₱172,772,283 as of December 31, 2019 and 2018, respectively.

The rollforward analysis of due to reinsurers and ceding companies follows:

	2019	2018
Balance at beginning of the year	₱172,772,283	₱106,550,170
Arising during the year	180,361,898	372,609,081
Utilized	(71,368,936)	(306,386,968)
Balance at end of year	₱281,765,245	₱172,772,283

22. Accounts Payable and Other Liabilities

This account consists of:

	2019	2018
VAT payable	₱305,592,065	₱247,652,266
Commission payable	146,520,518	118,527,068
Withholding taxes payable	128,566,718	98,572,172
Accounts payable	109,083,811	110,422,383
Taxes payable	19,771,018	16,680,152
Documentary stamp taxes (DST) payable	4,255,786	6,026,641
Accrued expenses	4,460,304	4,064,107
Others	1,259,222	1,609,866
	₱719,509,442	₱603,554,655

Others include loans and salary contributions payable.



23. Maturity Analysis of Financial and Nonfinancial Assets and Liabilities

The following tables present the assets and liabilities of the Company by expected maturity and settlement dates as of December 31, 2019 and 2018:

	2019		Total
	Due Within One Year	Due Beyond One Year	
Financial Assets			
Cash and cash equivalents	₱175,524,640	₱-	₱175,524,640
Short-term investments	58,426,992	-	58,426,992
Insurance receivables	704,429,589	-	704,429,589
Investments in financial assets			
Financial assets at FVTPL	265,409,017	-	265,409,017
Financial assets at FVOCI	6,638,578	1,017,836,057	1,024,474,635
Financial assets at amortized cost	-	1,341,567,085	1,341,567,085
Receivables	2,887,923	-	2,887,923
Accrued income	23,711,120	-	23,711,120
Reinsurance assets	861,693,343	-	861,693,343
	2,098,721,202	2,359,403,142	4,458,124,344
Nonfinancial Assets			
Reinsurance assets	83,524,029	18,400,629	101,924,658
Deferred acquisition costs	217,526,260	23,963,070	241,489,330
Property and equipment	-	20,868,428	20,868,428
Right-of-use asset	12,524,287	1,392,602	13,916,889
Investment properties	-	60,000,000	60,000,000
Software cost	-	877,109	877,109
Deferred tax assets	-	28,099,346	28,099,346
Other assets	28,717,128	8,768,985	37,486,113
	342,291,704	162,370,169	504,661,873
	₱2,441,012,906	₱2,521,773,311	₱4,962,786,217
Financial Liabilities			
Insurance contract liabilities	₱1,732,980,005	₱76,042,150	₱1,809,022,155
Insurance payables	281,765,245	-	281,765,245
Accounts payable and other liabilities	719,509,442	-	719,509,442
Lease liabilities	9,295,830	1,484,545	10,780,375
	2,743,550,522	77,526,695	2,821,077,217
Nonfinancial Liabilities			
Insurance contract liabilities	788,940,915	93,258,650	882,199,565
Deferred reinsurance commission	8,718,004	2,561,525	11,279,529
Retirement benefit liability	-	16,876,786	16,876,786
	797,658,919	112,696,961	910,355,880
	₱3,541,209,441	₱190,223,656	₱3,731,433,097



	2018		Total
	Due Within One Year	Due Beyond One Year	
Financial Assets			
Cash and cash equivalents	₱251,797,889	₱-	₱251,797,889
Short-term investments	57,255,978	-	57,255,978
Insurance receivables	605,685,935	-	605,685,935
Investments in financial assets			
Financial assets at FVTPL	492,891,987	-	492,891,987
Financial assets at FVOCI	123,365,532	700,283,856	823,649,388
Financial assets at amortized cost	-	883,700,406	883,700,406
Receivables	1,147,021	-	1,147,021
Accrued income	15,345,365	-	15,345,365
Reinsurance assets	417,805,381	-	417,805,381
	1,965,295,088	1,583,984,262	3,549,279,350
Nonfinancial Assets			
Reinsurance assets	91,369,321	15,833	91,385,154
Deferred acquisition costs	213,527,064	8,441,907	221,968,971
Property and equipment	-	19,745,158	19,745,158
Software cost	-	1,124,796	1,124,796
Deferred tax assets	-	26,015,464	26,015,464
Retirement benefit asset	-	1,290,285	1,290,285
Other assets	18,383,092	11,857,075	30,240,167
	323,279,477	68,490,518	391,769,995
	₱2,288,574,565	₱1,652,474,780	₱3,941,049,345
Financial Liabilities			
Insurance contract liabilities	₱1,087,629,457	₱48,657,615	₱1,136,287,072
Insurance payables	172,772,283	-	172,772,283
Accounts payable and other liabilities	603,554,655	-	603,554,655
Income tax payable	32,045,481	-	32,045,481
	1,896,001,876	48,657,615	1,944,659,491
Nonfinancial Liabilities			
Insurance contract liabilities	727,736,254	34,577,095	762,313,349
Deferred reinsurance commission	10,603,521	-	10,603,521
	738,339,775	34,577,095	772,916,870
	₱2,634,341,651	₱83,234,710	₱2,717,576,361

24. Capital Stock

The Company's capital stock consists of:

	Shares	Amount
Common stock - ₱1,000 par value		
Authorized	1,300,000	₱1,300,000,000
Issued and outstanding	682,123	₱682,123,000



25. Net Insurance Earned Premiums

Gross earned premiums on insurance contracts and reinsurers' share of gross earned premiums on insurance contracts consist of the following:

	2019	2018
Gross premiums on insurance contracts:		
Direct insurance	₱2,112,381,500	₱1,895,638,215
Assumed reinsurance	80,891,203	55,647,608
Total gross premiums on insurance contracts (Note 20)	2,193,272,703	1,951,285,823
Gross change in provision for unearned premiums	(119,886,216)	(13,839,711)
Total gross earned premiums on insurance contracts (Note 20)	2,073,386,487	1,937,446,112
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	466,849,154	372,609,081
Assumed reinsurance	281,169,960	227,018,668
Total reinsurers' share of gross premiums on insurance contracts (Note 20)	748,019,114	599,627,749
Reinsurers' share of gross change in provision for unearned premiums	(10,539,504)	(19,043,978)
Total reinsurers' share of gross earned premiums on insurance contracts (Note 20)	737,479,610	580,583,771
Total net insurance earned premiums (Note 20)	₱1,335,906,877	₱1,356,862,341

26. Investment and Other Income (Expense) - Net

This account consists of:

	2019	2018
Interest income:		
Bank deposits	₱8,636,589	₱5,514,934
Financial assets at amortized cost	59,149,463	36,096,260
Financial assets at FVOCI	30,724,346	25,128,390
Dividends:		
Relating to equity instruments at FVTPL derecognized during the year	420,684	1,446,427
Relating to equity instruments at FVTPL held at the end of the reporting period	9,409,933	9,421,785
Relating to equity instruments at FVOCI held at the end of the reporting period	19,373,402	17,759,159
Others:		
Net loss on financial assets at FVTPL	(25,605,620)	(51,554,773)
Gains (losses) on sale of debt investments at FVOCI financial assets	2,498,244	(2,007,715)
Provision for credit losses (Note 19)	(4,720,347)	(1,231,197)

(Forward)



	2019	2018
Foreign exchange gains (loss) - net	(P578,448)	P3,396,733
Gain on sale of property and equipment (Note 14)	231,844	160,094
Others	(3,105,083)	25,890
	P96,435,007	P44,155,987

27. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid consist of the following:

	2019	2018
Insurance contract benefits and claims paid:		
Direct insurance	P667,046,720	P625,050,104
Assumed reinsurance	11,389,362	13,404,282
Total insurance contract benefits and claims paid (Note 20)	P678,436,082	P638,454,386

Reinsurers' share of gross insurance contract benefits and claims paid consists of the following:

	2019	2018
Reinsurers' share of insurance contract benefits and claims paid:		
Facultative agreements	P108,067,585	P66,981,146
Treaty agreements	69,066,911	11,807,279
Total reinsurers' share of insurance contract benefits and claims paid (Note 20)	P177,134,496	P78,788,425

Gross change in insurance contract liabilities consists of the following:

	2019	2018
Change in provision for claims reported:		
Direct insurance	P468,023,834	(P54,296,864)
Assumed reinsurance	923,010	(2,115,280)
Change in provision for IBNR (Note 20)	203,788,239	82,845,730
Total gross change in insurance contract liabilities	P672,735,083	P26,433,586

Reinsurers' share of gross change in insurance contract liabilities consists of the following:

	2019	2018
Reinsurers' share of claims reported:		
Facultative and treaty agreements	P262,410,321	(P8,898,474)
Reinsurers' share of change in provision for IBNR (Note 20)	181,477,641	68,921,640
Total reinsurers' share of gross change in insurance contract liabilities	P443,887,962	P60,023,166



28. Operating Expenses and Other Underwriting Expenses

This account consists of:

	2019	2018
Salaries and employee benefits (Note 29)	₱108,538,220	₱106,583,914
Depreciation and amortization (Notes 14, 15 and 17)	29,108,517	3,800,271
Outside services	24,912,223	27,537,761
Advertising and promotion	12,923,566	14,714,628
Provision for (reversal of) credit losses (Note 19)	(9,069,437)	1,101,001
Taxes and licenses	8,838,862	8,925,349
Communication, light and water	8,836,169	9,179,655
Repairs and maintenance	8,587,561	7,722,271
Printing and office supplies	8,538,946	7,588,583
Entertainment, amusement and recreation	4,086,529	3,407,007
Transportation and travel	3,928,412	3,896,547
Data processing charges	3,780,175	4,345,429
Agency fees	2,645,059	3,420,100
Directors' fees	1,803,333	1,926,232
Insurance	1,445,555	1,343,123
Survey fees	740,907	447,786
Rent	-	12,983,231
Bank charges	268,682	254,480
Miscellaneous	5,587,958	4,760,999
Total Operating Expenses	₱225,501,237	₱223,938,367

Other underwriting expenses amounted to ₱26,706,417 and ₱18,369,173 in 2019 and 2018, respectively, as presented in the statements of income. These generally pertain to the Company's share of the administrative and miscellaneous expenses reported by Philippine Accident Managers, Inc. and overseas Filipino workers' accounts and towing expenses.

As discussed in Note 15, the Company has certain leases of printer equipment which are considered low value assets. Rental payments related to the lease of printer equipment amounted to ₱1,597,947 and ₱1,367,541 in 2019 and 2018, respectively, and is included under 'Printing and Office Supplies'.

29. Retirement Benefit Asset (Liability)

The Company has a funded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The plan provides a retirement benefit equal to one hundred percent (100%) of Plan Salary for every year of credited service plus retirement bonus, if any. The plan is administered by a local bank as trustee.



The amount of retirement benefit asset (liability) recognized in the statement of financial position as of December 31, 2019 and 2018 follow:

	2019	2018
Present value of defined benefit obligation	(P65,108,597)	(P48,356,147)
Fair value of plan assets	48,231,811	49,745,784
Funding status	(16,876,786)	1,389,637
Effect of asset ceiling	-	(99,352)
Retirement benefit asset (liability)	(P16,876,786)	P1,290,285

Changes in present value of the defined benefit obligation as of December 31, 2019 and 2018 recognized in the statements of financial position follows:

	2019	2018
Balance at beginning of year	P48,356,147	P49,236,300
Current service cost	5,403,629	5,910,706
Interest cost	3,723,423	2,791,698
Benefits paid	(2,296,411)	(370,857)
Remeasurement (gains) losses		
Actuarial gains (losses) arising from changes in financial assumptions	11,369,084	(9,911,023)
Experience adjustments	(1,447,275)	699,323
Balance at end of year	P65,108,597	P48,356,147

Changes in the fair value of plan assets are as follow:

	2019	2018
Balance at beginning of year	P49,745,784	P42,361,454
Contributions	-	8,444,318
Interest income	3,742,014	2,630,777
Benefits paid	(2,296,411)	(370,857)
Return on plan assets excluding amount in net interest income	(2,959,576)	(3,319,908)
Balance at end of year	P48,231,811	P49,745,784

The amounts of defined benefit cost that is included under 'Salaries and employee benefits' in operating expenses follow:

	2019	2018
Current service cost	P5,403,629	P5,910,706
Net interest cost*	(10,941)	160,921
	P5,392,688	P6,071,627

*includes interest on the effect of asset ceiling amounting to P7,650 in 2019



The amounts of defined benefit cost which is included in OCI related to remeasurement of retirement benefit liability follow:

	2019	2018
Actuarial gains (losses) on present value of retirement obligation	(₱9,921,809)	₱9,211,700
Return on plan assets excluding amount in net interest cost	(2,959,576)	(3,319,908)
Effect of asset ceiling	106,999	(99,352)
	(12,774,386)	5,792,440
Less income tax effect	3,832,315	(1,737,732)
	(₱8,942,071)	₱4,054,708

The fair values of plan assets by each class as at December 31, 2019 and 2018 are as follow:

	2019	2018
Cash and cash equivalents	₱4,482,263	₱6,943,061
Investments in:		
Government securities	39,057,720	30,024,506
Unit investment trust fund	25,000	8,151,256
Private securities	4,335,994	4,343,173
Accrued trust fees	(62,030)	(53,125)
Other receivables	392,864	336,913
Total plan assets	₱48,231,811	₱49,745,784

Cash and cash equivalents include cash in savings deposit, special savings deposit, and time deposit accounts. Investments in debt instruments under government securities pertain to investments in retail treasury bonds while investments in debt instruments under private securities consist of investment in commercial papers and interest receivables.

All debt instruments held, except various receivables, have quoted prices in active market. The remaining plan assets are carried at their carrying amounts since the carrying amounts approximate the fair values.

The plan assets comprise significantly of investments in government securities, representing 80.98% and 60.36% of total plan assets as of December 31, 2019 and 2018, respectively. Investments in government securities are considered 'low credit risk' investments.

The principal assumptions used to determine pension benefits for the Company are as follows:

	2019	2018
Discount rate	5.54%	7.70%
Expected salary rate increase	7.00%	7.00%



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

	2019	
	Change in variables	Impact on present value of defined benefit obligation Increase (decrease)
Discount rate	+100 bps	(₱5,821,184)
	-100 bps	7,046,387
Salary increase rate	+100 bps	₱6,869,991
	-100 bps	(5,798,181)
	2018	
	Change in variables	Impact on present value of defined benefit obligation Increase (decrease)
Discount rate	+100 bps	(₱3,735,062)
	-100 bps	4,432,142
Salary increase rate	+100 bps	₱4,418,713
	-100 bps	(3,790,085)

The Company does not expect any contribution to the plan for the next reporting period.

In 2019 and 2018, the weighted average duration of the retirement benefit obligation is 9.9 years and 8.4 years, respectively.

Maturity profile of the expected undiscounted benefit payments are as follow:

Financial Years	2019	2018
Year 1	₱13,804,234	₱4,647,546
Year 2	689,436	10,400,591
Year 3	16,552,876	719,072
Year 4	1,014,125	18,070,115
Year 5	2,443,881	996,194
Year 6 to Year 10	14,626,682	15,168,633



30. Income Tax

Provision for income tax consists of:

	2019	2018
Current		
Final	₱19,899,690	₱13,788,031
MCIT	253,810	-
RCIT	-	41,855,245
	20,153,500	55,643,276
Deferred	1,748,433	(15,998,754)
	₱21,901,933	₱39,644,522

In 2019 and 2018, the Company recognized provision for (benefit from) deferred tax directly to OCI amounting to (₱3,832,315) and ₱1,737,732, respectively. The components of the Company's net deferred tax asset consist of the tax effects of the following:

	2019	2018
Deferred tax assets on:		
Provision for IBNR - net	₱27,765,597	₱21,072,419
Lease liabilities	3,234,112	-
Accounts payable and other liabilities	5,374,500	-
Allowance for credit losses	5,044,423	6,349,150
Retirement benefit liability	5,063,035	-
Unamortized past service cost	2,659,959	-
Accrued expense	986,252	-
Unrealized foreign exchange loss	173,535	-
Total deferred tax assets	50,301,413	27,421,569
Deferred tax liabilities on:		
Investment properties	18,000,000	-
Right-of-use asset	4,175,067	-
Retirement benefit asset	-	387,086
Unrealized foreign exchange gain	-	1,019,019
Total deferred tax liabilities	22,175,067	1,406,105
Net deferred tax assets	₱28,099,346	₱26,015,464

In 2019, the Company did not recognize deferred tax assets on NOLCO and excess MCIT amounting to ₱138,554,078 and ₱253,810, respectively. In 2018, the Company did not recognize deferred tax asset on unamortized past service cost and accrued expenses amounting to ₱11,318,634 and ₱2,816,107, respectively. Management believes that it is not probable that the related tax benefits will be realized prior to its reversal or expiry.



The reconciliation of income before income tax computed at the statutory income tax rate to effective income tax follows:

	2019	2018
Tax at statutory income tax rate	(₱8,461,764)	₱53,292,768
Adjustments for:		
Movement in unrecognized deferred tax assets	37,579,611	(16,728,485)
Nondeductible expenses and losses	11,198,721	22,883,784
Income subjected to lower tax rates	(9,653,429)	(11,215,334)
Nontaxable income	(8,761,206)	(8,588,211)
Provision for income tax	₱21,901,933	₱39,644,522

31. Management of Capital, Insurance and Financial Risks

Governance Framework

The primary objective of the Company's risk and financial management framework is to ensure that the risks related to the Company are managed through a systematic and consistent risk management process. The Company recognizes the critical importance of having efficient and effective risk management systems in place.

The Company is guided by its standard operating procedures and internal control procedures designed to ensure attainment of the Company objective. More so it is strongly backed up by its strong treaty agreements, which more or less limits the risk acceptance.

The Company, through its Risk Management Committee, has already adopted the Enterprise Risk Management Framework of the Parent Company tailored to fit the Company's operations. The framework outlines the structure of the Risk Management Organization and defines the integral role of each position as well as provides the reportorial requirements and processes.

The Risk Management Committee is composed of not less than (3) members of the Board whereas, the Chief Underwriting Technical is appointed as the Risk Champion. To serve as member of the organization, the head of each department are automatically called the Risk Owner.

Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., fixed capitalization requirements and risk-based capital requirements).

Capital Management Framework

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirement and that the Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is higher than the minimum capital requirements set by the regulators as imposed under Department of Finance Order (DO) 27-06 and the amount computed under the Risk Based Capital (RBC) Framework.



The Company reviews the capital requirements through monthly computation of the RBC which is regularly communicated to the major shareholders. With this procedure, shareholders are forewarned in anticipation of the IC requirements of additional capital infusion. Shareholders are well updated with these externally imposed capital requirements since these are being discussed during annual BOD meeting. Evidently, they have shown their commitment to comply with this regulation, same as prior years when they willingly infused additional cash as the need arises.

Unimpaired capital requirement

Republic Act No. 10607, *New Insurance Code* provides the capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022 as follows:

Compliance date	Net worth
June 30, 2013	₱250,000,000
December 31, 2016	550,000,000
December 31, 2019	900,000,000
December 31, 2022	1,300,000,000

IC CL No. 2015-02-A also requires that the minimum net worth of insurance companies shall remain unimpaired at all times and shall increase to the amounts provided in RA No. 10607, *New Insurance Code*. As of December 31, 2018, the Company's statutory net worth amounted to ₱808,743,808, exceeding the ₱550,000,000 requirement by ₱258,743,808. Based on the latest synopsis issued by the IC as of December 31, 2019, the statutory net worth of the Company amounted to ₱925,615,961 exceeding the ₱900,000,000 requirement (applicable starting December 31, 2019) by ₱25,615,961.

Financial Reporting Framework

On December 28, 2016, IC issued Circular No. 2016-65 relating to financial reporting framework under section 189 of the Republic Act No. 10607 known as the "New Insurance Code" to clarify the rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all the other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies. The circular enumerated the list of admitted and non-admitted assets and investments. It includes the manual of accounts which enumerates certain admitted assets not specifically listed in Section 202 of the New Insurance Code. The circular takes effect beginning January 1, 2017.

Risk-based Capital Ratio

Under existing IC regulations, the determination of the Company's compliance with regulatory requirements and ratios is based on the amount of the Company's unimpaired capital (regulatory net worth), determined on the basis of regulatory framework.

Effective January 1, 2017, the Company complied with the IC issued CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework* which provides the quantitative requirements in relation to the calculation of capital requirements and recognition of eligible capital. The circular sets out a minimum RBC ratio of 100%. Under the amended RBC2 Framework, RBC ratios is the total available capital expressed as a percentage of RBC requirement. Total available capital is the aggregate of Tier 1 and Tier 2 capital minus deductions determined on the basis of regulatory framework and subject to applicable limits. The RBC requirement is the capital that is required to be held appropriately to the risks and insurance company is exposed to.



The risk-based capital ratio reported to the IC as of December 31, 2019 and 2018, respectively, are shown below:

	2019	2018
Total available capital	₱1,171,694,803	₱1,182,611,018
RBC requirement	818,419,976	581,990,829
RBC Ratio	143%	203%

The final amount of the statutory net worth and RBC ratio can only be determined after the accounts of the Company have been examined by the IC.

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

Insurance Risk

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

The Company principally issues the following types of general insurance contracts: fire, motor, health and accident, aviation/hull, marine, engineering, professional indemnity, bonds, fidelity guarantee and surety. Risks under general insurance policies usually cover twelve-month duration.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities.

These risks vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example, hurricanes, earthquakes and flood damages.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by management.



The following table sets out the concentration of the claims liabilities by type of contract:

2019			
	Gross claim liabilities	Reinsurers' share of claims liabilities	Net claims liabilities
Fire	₱786,209,119	₱455,513,520	₱330,695,599
Motor	367,359,295	1,224,005	366,135,290
Marine	69,314,028	31,814,055	37,499,973
Bonds	55,851,156	11,382,500	44,468,656
General Accounts*	52,986,795	14,193,525	38,793,270
Engineering	52,464,652	27,226,684	25,237,968
Personal Accident	12,846,105	900,040	11,946,065
Total	₱1,397,031,150	₱542,254,329	₱854,776,821

**Includes Fidelity Guarantee, Money, Securities and Payroll Robbery, Public Liability, Burglary and Robbery, Property and Equipment Floater, All Risks, Professional Indemnity, and Miscellaneous Claims.*

2018			
	Gross claim liabilities	Reinsurers' share of claims liabilities	Net claims liabilities
Fire	₱367,397,678	₱173,905,263	₱193,492,415
Motor	317,165,786	3,640,986	313,524,800
Marine	47,683,243	27,465,875	20,217,368
Bonds	63,752,532	18,996,167	44,756,365
General Accounts*	51,955,067	14,214,078	37,740,989
Engineering	68,551,729	40,070,726	28,481,003
Personal Accident	11,578,271	1,550,913	10,027,358
Total	₱928,084,306	₱279,844,008	₱648,240,298

**Includes Fidelity Guarantee, Money, Securities and Payroll Robbery, Public Liability, Burglary and Robbery, Property and Equipment Floater, All Risks, Professional Indemnity, and Miscellaneous Claims.*

Terms and Conditions

The major classes of general insurance written by the Company include fire, motor, and marine insurance.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and IBNR) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the end of the reporting period.

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

Claims provisions are separately analyzed by class of business. In addition, larger claims are usually either separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.



Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions include variation in interest rate, delays in settlement and changes in foreign currency rates.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, etc., is not possible to quantify.

The analysis below is performed for a reasonable possible movement in key assumptions, with all other assumptions held constant, on the statement of income and equity.

2019					
	Change in assumptions	Increase on gross liabilities	Increase on net liabilities	Decrease on profit before tax	Decrease on Equity
Average claim cost	+15%	₱209,554,673	₱128,216,523	(₱128,216,523)	(₱89,751,566)
Average number of claims	+10%	139,703,115	85,477,682	(85,477,682)	(59,834,377)
2018					
	Change in assumptions	Increase on gross liabilities	Increase on net liabilities	Decrease on profit before tax	Decrease on Equity
Average claim cost	+15%	₱139,212,646	₱97,236,045	(₱97,236,045)	(₱68,065,232)
Average number of claims	+10%	92,808,431	64,824,030	(64,824,030)	(45,376,821)

Claims Development Table

Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis.

The tables reflect the cumulative incurred claims for each successive accident year at each end of the reporting period with cumulative payments to date. The same is the basis in the actuarial valuation of NMG Consulting, the Company's independent actuary.

As of December 31, 2019, the Company recognized provision for IBNR of ₱92,551,991 net of reinsurance which includes an MfAD of ₱56,400,586 set at 100%. As of December 31, 2018, the Company recognized provision for IBNR of ₱70,241,396 net of reinsurance which includes an MfAD of ₱43,895,000 set at 100%.

The Company aims to maintain strong reserves in respect of its general insurance in order to protect against adverse future claims experience and development. As claims develop and ultimate costs of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.



The tables below show the development of claims over a period of time, both at gross and net of reinsurance. It shows the cumulative incurred claims for each successive accident year at each reporting date, together with cumulative claims as of December 31, 2019.

Gross Insurance Liabilities

Accident Year/ Development years	1	2	3	4	5	6	7	8	9	10+	Total
2010 and prior	₱2,551,275,997	₱2,681,236,054	₱2,812,049,119	₱2,845,476,583	₱2,822,920,303	₱2,815,739,145	₱2,807,370,050	₱2,807,371,070	₱2,808,488,474	₱8,621,737,249	₱33,573,664,044
2011	357,215,742	339,883,749	340,339,886	321,170,838	318,870,374	318,100,345	317,554,681	318,174,931	318,220,393		2,949,530,939
2012	417,273,319	381,289,376	352,982,596	349,361,403	347,347,017	346,332,132	344,420,122	343,767,434			2,882,773,399
2013	818,711,606	702,425,653	658,753,812	649,414,577	645,436,214	632,056,208	630,658,705				4,737,456,775
2014	433,750,968	388,863,752	367,339,994	335,242,981	336,923,201	329,853,927					2,191,974,823
2015	523,181,552	480,792,405	432,917,350	413,331,599	407,465,176						2,257,688,082
2016	595,929,465	606,243,715	571,437,917	622,879,108							2,396,490,205
2017	809,438,786	683,747,011	664,273,339								2,157,459,136
2018	800,406,224	724,781,130									1,525,187,354
2019	1,258,258,860										1,258,258,860
Current estimate of cumulative claims	1,258,258,860	724,781,130	664,273,339	622,879,108	407,465,176	329,853,927	630,658,705	343,767,434	318,220,393	2,770,450,613	8,070,608,685
Cumulative payments to date	317,972,927	505,643,304	540,117,191	549,202,313	400,567,235	322,688,996	617,025,257	343,605,673	317,904,721	2,758,849,918	6,673,577,535
Total gross insurance liabilities included in the statement of financial position	₱940,285,933	₱219,137,826	₱124,156,148	₱73,676,795	₱6,897,941	₱7,164,931	₱13,663,448	₱161,761	₱315,672	₱1,600,695	₱1,397,061,150

Net Insurance Liabilities

Accident Year/ Development year	1	2	3	4	5	6	7	8	9	10+	Total
2010 and prior	₱1,227,500,200	₱1,401,196,639	₱1,515,302,135	₱1,550,032,035	₱1,561,747,530	₱1,558,111,913	₱1,554,998,019	₱1,555,231,928	₱1,555,515,301	₱5,156,093,485	₱18,635,729,185
2011	197,949,481	192,912,185	192,756,495	182,280,017	181,194,644	181,226,741	181,113,858	181,384,725	181,418,974		1,672,237,120
2012	203,181,448	210,847,629	197,301,492	197,375,103	197,237,012	196,877,498	195,523,507	195,389,647			1,593,733,336
2013	289,705,937	278,324,874	240,558,666	248,497,697	247,881,161	246,710,562	245,589,922				1,797,268,819
2014	292,646,569	280,910,279	267,794,146	252,977,567	252,420,080	251,147,760					1,597,896,401
2015	436,999,411	394,550,810	365,304,569	346,294,850	340,428,426						1,883,578,066
2016	519,790,149	507,324,277	466,446,634	501,076,828							1,994,637,888
2017	662,839,506	591,743,711	570,713,923								1,825,297,140
2018	651,473,634	601,363,088									1,252,836,722
2019	779,444,688										779,444,688
Current estimate of cumulative claims	779,444,688	601,363,088	570,713,923	501,076,828	340,428,426	251,147,760	245,589,922	195,389,647	181,418,974	1,557,234,730	5,223,807,986
Cumulative payments to date	226,246,064	453,490,518	487,435,248	443,783,792	334,465,826	246,066,086	243,678,928	195,312,410	181,386,642	1,557,165,651	4,369,031,165
Total gross insurance liabilities included in the statement of financial position	₱553,198,624	₱147,872,570	₱83,278,675	₱57,293,036	₱5,962,600	₱5,081,674	₱1,910,994	₱77,237	₱32,332	₱69,079	₱854,776,821



Fair Value of Financial Instruments

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

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

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

Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, accrued income, insurance payables, and accounts payable and other liabilities, their carrying values reasonably approximate fair values as of December 31, 2019 and 2018.

The fair value of debt instruments in 2019 and 2018 that are actively traded in organized financial markets is determined by reference to quoted market prices within the bid-offer price range, at the close of business at the end of the reporting period or the last trading day as applicable. These are classified as Level 1 under the fair value hierarchy.

The fair value of equity instruments in 2019 and 2018 that are actively traded in Philippines Stock Exchange (PSE) is determined by reference to closing price as published in PSE. These are classified as Level 1 under the fair value hierarchy.

The fair value of the Company's investment properties (see Note 16) is determined on the basis of the appraisals performed by an independent appraisal company. The valuation process is conducted by the appraiser with respect to the determination of the inputs such as the size, age, and condition of the properties, and the comparable prices in the corresponding property location. The fair value is classified as Level 3 under the fair value hierarchy where the most significant unobservable input is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

The table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

	2019				Total Fair Values
	Carrying Values	Level 1	Level 2	Level 3	
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Listed equity securities					
Common shares	₱265,409,017	₱265,409,017	₱-	₱-	₱265,409,017
Financial assets at FVOCI:					
Listed equity securities:					
Common shares	299,227	299,227	-	-	299,227
Preferred shares	311,285,669	311,285,669	-	-	311,285,669
Club shares	12,800,000	-	12,800,000	-	12,800,000
Government debt securities	647,985,646	647,985,646	-	-	647,985,646
Private debt securities	52,104,093	52,104,093	-	-	52,104,093
	1,289,883,652	1,277,083,652	12,800,000	-	1,289,883,652
Non-financial assets					
Investment properties	60,000,000	-	-	60,000,000	60,000,000
	₱1,349,883,652	₱1,277,083,652	₱12,800,000	₱60,000,000	₱1,349,883,652



	2019				Total Fair Values
	Carrying Values	Level 1	Level 2	Level 3	
Assets for which fair values are disclosed					
Financial assets at amortized cost:					
Investment securities:					
Government	₱139,846,827	₱130,157,447	₱-	₱-	₱130,157,447
Private	1,201,720,258	1,194,696,265	-	-	1,194,696,265
	₱1,341,567,085	₱1,324,853,712	₱-	₱-	₱1,324,853,712

Liabilities for which fair values are disclosed					
Financial liabilities at amortized cost:					
Lease liabilities	₱10,780,375	₱-	₱10,653,811	₱-	₱10,653,811

	2018				Total Fair Values
	Carrying Values	Level 1	Level 2	Level 3	
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Listed equity securities					
Common shares	₱492,891,987	₱492,891,987	₱-	₱-	₱492,891,987
Financial assets at FVOCI:					
Listed equity securities:					
Common shares	277,642	277,642	-	-	277,642
Preferred shares	278,236,190	278,236,190	-	-	278,236,190
Club shares	5,700,000	-	5,700,000	-	5,700,000
Government debt securities	491,958,367	491,958,367	-	-	491,958,367
Private debt securities	47,433,189	47,433,189	-	-	47,433,189
	₱1,316,497,375	₱1,310,797,375	₱5,700,000	₱-	₱1,316,497,375

Assets for which fair values are disclosed					
Financial assets at amortized cost:					
Investment securities					
Government	₱140,000,000	₱104,491,749	₱-	₱-	₱104,491,749
Private	750,110,000	659,259,533	-	-	659,259,533
	₱890,110,000	₱763,751,282	₱-	₱-	₱763,751,282

As of December 31, 2019 and 2018, no transfers were made among the three levels in the fair value hierarchy.

Financial Risk

The Company is exposed to financial risk through its financial assets and financial liabilities, particularly, credit risk, liquidity risk, and market risk (foreign exchange, interest rate, and equity price risks). The BOD reviews and amends policies for managing each of these risks.

Credit risk

Credit risk is the risk that one party to a financial instrument, insurance contract issued in an asset position or reinsurance contract held will cause a financial loss for the other party by failing to discharge an obligation.



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

The Company's credit risk policy sets out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Credit risk relating to financial instruments is monitored by the Company's investment team. It is their responsibility to review and manage credit risk, including environmental risk for all counterparties. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits. It is the Company's policy to invest in high quality financial instruments with a low risk of default. If there is a significant increase in credit risk, the policy dictates that the instrument should be sold and amounts recovered reinvested in high quality instruments.

Regular review of company policies is being conducted to ensure proper monitoring of direct and reinsurance receivables versus payables. The Company reserves the right to offset where counterparties are both debtors and creditors; cancel policies which are beyond the credit-term or those with lesser probability of being collected and terminate contract which the management believes to be non-productive. Commissions and claims are likewise being used as leverage to collect from counterparty. In the event of a major loss, the Company is backed up by reinsurers with strong financial standing.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs.

The nature of the Company's exposure to credit risks and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

Credit limits are also used to manage credit exposure specific to each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 19. The Company does not enter into collateral or credit enhancements. The Company manages its credit exposure based on the carrying value of the financial instruments and insurance and reinsurance contract assets.

Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The Company's investment team prepares internal ratings for instruments held in which its counterparties are rated using internal grades (high grade, standard grade, sub-standard grade, past due but not impaired and individually impaired). The ratings are determined incorporating both qualitative and quantitative information that builds on information from Philippine Rating Services Corporation, supplemented with information specific to the counterparty and other external information that could affect the counterparty's behavior. These information sources are first used to determine whether an instrument has had a significant increase in credit risk.



The following are the details of the Company's assessment of credit quality and the related ECLs as at December 31, 2019 and 2018:

a. Cash in bank and short-term investments

These are classified as high grade. These are deposited, placed or invested in local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b. Insurance receivables and other receivables

These are classified as either high grade or past due. High grade is given to counterparties having good standing in terms of credit and paying habits. Accounts beyond the standard 90-day credit terms are classified as past due. Although categorized as past due, these are highly collectible accounts based on Company's experience. Normally, these are corporate accounts wherein the Company has reciprocity of business.

c. Debt securities

These are classified as high grade. The government debt securities are issued by the Philippine Government and are considered as risk-free debt securities. The corporate debt securities are issued by stable companies and are considered to be of high creditworthiness.

The maximum exposure to credit risk, gross of allowance for credit losses, follows:

	2019			Total
	High	Past due but not impaired	Impaired	
Cash and cash equivalents*	₱176,122,432	₱-	₱-	₱176,122,432
Short-term investments	58,701,167	-	-	58,701,167
Insurance receivables:				
Due from brokers and agents	477,732,214	176,320,477	-	654,052,691
Due from ceding companies	431,920	4,402,834	10,400	4,845,154
Funds held by ceding company	7,678,095	-	-	7,678,095
Reinsurance recoverable on paid losses	30,785,858	11,246,411	-	42,032,269
Financial assets at FVOCI**	700,089,739	-	-	700,089,739
Financial assets at amortized cost	1,352,997,963	-	-	1,352,997,963
Receivables	2,887,923	-	-	2,887,923
Accrued income	23,711,120	-	-	23,711,120
Reinsurance assets	861,693,343	-	-	861,693,343
Total	₱3,692,831,774	₱191,969,722	₱10,400	₱ 3,884,811,896

*Excluding cash on hand

**Excluding equity securities

	2018			Total
	High	Past due but not impaired	Impaired	
Cash and cash equivalents	₱252,763,990	₱-	₱-	₱252,763,990
Short-term investments	271,154	-	-	271,154
Insurance receivables:				
Due from brokers and agents	385,775,419	184,104,690	-	569,880,109
Due from ceding companies	1,409,646	5,280,335	58,090	6,748,071
Funds held by ceding company	4,288,595	-	-	4,288,595
Reinsurance recoverable on paid losses	20,942,224	12,754,744	6,320,249	40,017,217
Financial assets at FVOCI	539,391,556	-	-	539,391,556
Financial assets at amortized cost	890,110,000	-	-	890,110,000
Receivables	1,147,021	-	-	1,147,021
Accrued income	15,345,365	-	-	15,345,365
Reinsurance assets	417,805,381	-	-	417,805,381
Total	₱2,527,250,351	₱202,139,769	₱6,378,339	₱2,735,768,459

*Excluding cash on hand

**Excluding equity securities



Set out below is the information about the credit risk exposure on the Company's insurance receivables using a provision matrix as of December 31, 2019 and 2018:

	2019						Total
	Current	Days past due				Impaired*	
		< 30 days	31 to 60 days	61 to 90 days	> 90 days		
Expected loss rate	0.06%	0.61%	0.77%	1.22%	5.07%	100.00%	0.59%
Gross amount of insurance receivables	₱516,628,087	₱56,621,739	₱46,049,040	₱36,232,744	₱53,066,199	₱10,400	₱708,608,209
Expected credit loss	334,772	346,442	353,326	443,835	2,689,845	10,400	4,178,620

*consists of specifically impaired reinsurance recoverable on paid losses under PAS 39

	2018						Total
	Current	Days past due				Impaired*	
		< 30 days	31 to 60 days	61 to 90 days	> 90 days		
Expected loss rate	0.09%	0.94%	1.43%	1.95%	7.11%	100.00%	2.14%
Gross amount of insurance receivables	₱410,415,885	73,012,588	35,557,072	25,791,154	67,778,954	6,378,339	618,933,992
Expected credit loss	353,002	687,138	506,806	504,051	4,818,721	6,378,339	13,248,057

*consists of specifically impaired reinsurance recoverable on paid losses under PAS 39

The standard credit-term given by the Company is 90 days. However, accounts more than 90 days may be past due but not necessarily impaired. A 180-day credit-term may be given to those accounts with reciprocal business and those accounts involving bigger amount of sum insured or fleet accounts which as practiced are subject to quarterly remittance scheme.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

The Company holds sufficient liquid assets to enable it to continue normal operations. To achieve this objective, the Company positions its investments to match the projected cash requirements.

To strike the optimal balance between generating adequate investment returns and holding securities that can be easily sold for cash if required, the Company divides its investment portfolio into tranches with liquidity objective and benchmarks. The Company's core liquidity portfolio is invested in relatively liquid securities that can be readily sold if required. In addition to the core portfolio, the Company maintains a second tranche of liquidity that is always invested in the most highly liquid securities to cover its expected operational cash flow needs. The third tranche of liquidity are the Company's equity resources held together with a portfolio of fixed income securities which are both designated as FVOCI.



Maturity profiles

The table below summarizes the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual maturities based on remaining contractual obligations, or for the insurance contract liabilities, based on the estimated timing of net cash outflows. For financials assets at FVTPL and FVOCI, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the expected date the assets will be realized.

	2019				Total
	Within a year	2-3 years	4-5 years	Over 5 years	
Cash and cash equivalents*	₱176,377,972	₱-	₱-	₱-	₱176,377,972
Short-term investments*	58,925,618	-	-	-	58,925,618
Insurance receivables	708,608,209	-	-	-	708,608,209
Financial assets at FVTPL	265,409,017	-	-	-	265,409,017
Financial assets at FVOCI*	57,294,020	232,308,481	201,158,739	928,087,888	1,418,849,128
Financial assets at amortized cost*	-	390,400,137	638,428,009	651,813,067	1,680,641,213
Receivables	2,887,923	-	-	-	2,887,923
Accrued income	23,711,120	-	-	-	23,711,120
Reinsurance assets	861,693,343	-	-	-	861,693,343
Total financial assets	₱2,154,907,222	₱622,708,618	₱839,586,748	₱1,579,900,955	₱5,197,103,543
Insurance contract liabilities	₱1,732,980,005	₱76,042,150	₱-	₱-	₱1,809,022,155
Insurance payables	281,765,245	-	-	-	281,765,245
Accounts payable and other liabilities**	114,084,211	-	-	-	114,084,211
Commission payable	146,520,518	-	-	-	146,520,518
Lease liabilities (Note 15)	9,662,780	1,433,951	-	-	11,096,731
Total financial liabilities	₱2,285,012,759	₱77,476,101	₱-	₱-	₱2,362,488,860

*Including future interest

**Excluding statutory liabilities

	2018				Total
	Within a year	2-3 years	4-5 years	Over 5 years	
Cash and cash equivalents*	₱251,926,184	₱-	₱-	₱-	₱251,926,184
Short-term investments*	57,477,746	-	-	-	57,477,746
Insurance receivables	618,933,993	-	-	-	618,933,993
Financial assets at FVTPL	492,891,987	-	-	-	492,891,987
Financial assets at FVOCI*	125,883,325	122,131,994	455,603,444	227,250,398	930,869,161
Financial assets at amortized cost*	-	95,969,332	439,600,788	542,068,013	1,077,638,133
Receivables	1,147,021	-	-	-	1,147,021
Accrued income	15,345,364	-	-	-	15,345,364
Reinsurance assets	417,805,380	-	-	-	417,805,380
Total financial assets	₱1,981,411,000	₱218,101,326	₱895,204,232	₱769,318,411	₱3,864,034,969
Insurance contract liabilities	₱1,136,287,074	₱-	₱-	₱-	₱1,136,287,074
Insurance payables	172,772,284	-	-	-	172,772,284
Accounts payable and other liabilities**	115,489,338	-	-	-	115,489,338
Commission payable	118,527,068	-	-	-	118,527,068
Total financial liabilities	₱1,543,075,764	₱-	₱-	₱-	₱1,543,075,764

*Including future interest

** Excluding statutory liabilities

Market risk

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

The Company structures levels of market risk it accepts through a market risk policy that determines what constitutes market risk for the Company; basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument; sets out the net exposure limits by each counterparty or group of counterparties and industry segments; reporting of market risk exposures; monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment.



(a) *Currency risk*

Currency risk is the risk that the value of the financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in Philippine Peso and foreign currency-denominated transactions are primarily in terms of the US Dollar. The following tables show the Company's exposure to currency risk:

	2019		2018	
	USD	PHP	USD	PHP
Financial assets:				
Cash and cash equivalents	\$443,706	₱22,467,065	\$1,271,984	₱66,880,940
Due from brokers and agents	374,998	18,988,019	862,474	45,348,883

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities). Increase and decrease of 5% pertain to appreciation and depreciation of USD, respectively.

	2019	
	Change in variables	Impact on profit before tax Increase (decrease)
USD	+5.00%	₱2,072,747
USD	-5.00%	(₱2,072,747)
	2018	
	Change in variables	Impact on profit before tax Increase (decrease)
USD	+5.00%	₱5,611,469
USD	-5.00%	(5,611,469)

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

(b) *Interest risk*

Interest rate risk arises from the possibility that the future cash flows of a financial instrument will fluctuate because of changes in interest rates.

In 2019 and 2018, the Company has no exposure to interest rate risk since its financial instruments are not subject to floating interest rate.

(c) *Price risk*

The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally, equity securities at FVTPL and FVOCI in 2019 and 2018.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, and limits on investment in each sector and market.



The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on income before tax for financial assets at FVTPL and on equity for financial assets at FVOCI (the impact on equity excludes the impact on income before tax).

2019			
Market Index	Change in PSEi	Impact on income before tax Increase (decrease)	Impact on equity Increase (decrease)
PSEi 2019	+14.50%	P35,302,305	P27,524,345
PSEi 2019	-14.50%	(35,302,305)	(27,524,345)

2018			
Market Index	Change in PSEi	Impact on income before tax Increase (decrease)	Impact on equity Increase (decrease)
PSEi 2018	+12.76%	P57,105,721	P12,318,492
PSEi 2018	-12.76%	(57,105,721)	(12,318,492)

32. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or if the parties are subject to common control or common significant influence. A related party may be an individual or a corporate entity.

In the ordinary course of business, the Company has transactions with related parties. As of December 31, 2019 and 2018, significant transactions with related party follow:

	2019		2018		
	Transactions during the year	Outstanding balance	Transactions during the year	Outstanding balance	Terms and conditions
MAA International Group Ltd. (Parent Company)					
Technical Fees	P9,931,600	P-	P11,031,350	P-	(a)
MAAXSITE Sdn. Bhd. (Affiliate)					
IT Consultant Fees	2,488,283	-	2,426,159	-	(a)
Key management personnel					
Short-term benefits	30,347,793	-	28,177,462	-	

(a) On-demand and non-interest bearing; cash-settled; unsecured with no impairment. Included under 'Outside services' in Note 28

33. Contingencies

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no material liabilities are likely to result.



34. Events After the Reporting Period

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Company considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows.

The Company laid out plans to ensure unimpeded business operations through (i) official advisories to its clients and business partners of the measures being undertaken during the ECQ; (ii) close communication of members of top management to ensure that all processes and concerns are being monitored and attended to; (iii) creation of central communication group for employees and for various departments to cascade both internal and external business matters; and (iv) work from home scheme for its employees especially in the Company's core processes of policy issuance and attendance to claims. The Company also utilizes the facilities of its branches in the Visayas and Mindanao to deliver continuous services to clients and partners. The Company will continue to monitor the situation and will ensure full disclosure of its future financial and operational impact.

35. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

In compliance with the requirements set forth by RR No. 15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year.

- a. The Company is a VAT-registered company with VAT output tax declaration of ₱136,468,556 for the year based on the amount reflected in the Direct Premiums of ₱1,137,237,967.

The Company has zero-rated sales amounting to ₱17,739,640 pursuant to the provisions of Republic Act No. 7227, RR No. 2-2005, and BIR Ruling ITAD-45-00.

- b. The amount of input VAT taxes claimed are broken down as follows:

Balance at beginning of year	₱-
Current year's purchases/payments:	
Goods other than for resale	29,887,243
Services paid lodged under operating expenses	40,601,745
	<hr/>
	70,488,988
Input VAT applied against Output VAT	(70,488,988)
Balance at December 31	<hr/> <hr/> ₱-



Taxes relating to nonlife insurance policies that have been shifted or passed on the policyholders and are not recognized in the statement of income follow:

Details of DST for following transactions during the year are:

Transaction	Amount	DST
DS110-Policies of insurance upon property	₱1,164,088,401	₱145,511,050
DS114-Motor	787,737,301	98,467,163
DS109-Accident and Health	160,555,798	1,828,065
	₱2,112,381,500	₱245,806,278

The total unpaid DST as at December 31, 2019 amounted to ₱4,255,786.

Other taxes paid during year follows:

Tax	Amount
Fire Service Taxes (FST)	₱4,505,084
Premium Taxes	4,006,289
Local Government Taxes (LGT)	1,909,691
	₱10,421,064

The total unpaid as at December 31, 2019 amounted to ₱460,104 which comprised of ₱254,718 and ₱205,386 Premium Taxes and FST, respectively.

- c. Details of other taxes, local and national, follow:

National:

	Amount
Filing Fees	₱1,657,532
IC Fees	1,059,949
DST	351,136
LTO Registration Fees	24,250
Fringe benefit taxes	66,750
Total	₱3,159,617

Local:

	Amount
Real Estate Taxes	₱43,615
Others	19,529
Total	₱63,144

- d. The amount of withholding taxes remitted for the year amounted to:

Expanded withholding taxes	₱48,536,689
Tax on compensation and benefits	9,422,822
Final withholding taxes	—
Total	₱57,959,511



The total unpaid withholding tax liabilities as at December 31, 2019 amounted to ₱4,581,958 which comprised of unpaid expanded withholding taxes and withholding taxes on compensation amounting to ₱3,537,880 and ₱1,044,078, respectively. In addition, the Company recognized accrual on expanded withholding taxes amounting to ₱123,984,760 as at December 31, 2019.

- e. In 2019, the Company has received a final assessment notice from BIR LTS covering taxable year 2018 amounting to ₱2,082,235, inclusive of penalties for deficiency income taxes, expanded withholding tax, final withholding VAT and documentary stamp taxes which was subsequently paid on February 28, 2020.

