

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
FPG Insurance Co., Inc.
6th Floor, Zuellig Building
Makati Avenue corner Paseo de Roxas
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of FPG Insurance Co., Inc. (the Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income (loss), 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 accompanying 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

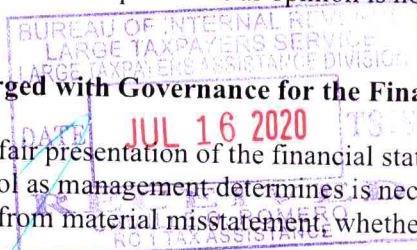
We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with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

Emphasis of Matter

We draw attention to Note 1 in the financial statements, which indicates that the Company's net worth and risk-based capital (RBC) ratio as of December 31, 2019 are not compliant to the minimum net worth and risk based capital requirements for nonlife insurance companies. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

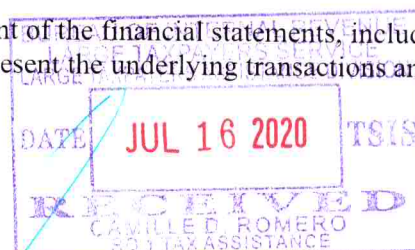
Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 No. 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 31 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 FPG Insurance Co., 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.

Miguel U. Ballelos Jr.

Miguel U. Ballelos, Jr.

Partner

CPA Certificate No. 109950

SEC Accreditation No. 1566-AR-1 (Group A),
April 3, 2019, valid until April 2, 2022

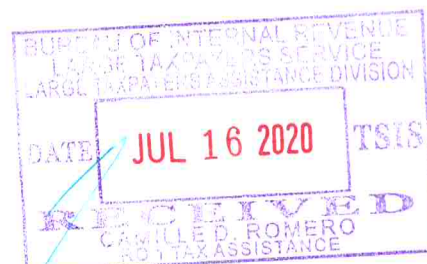
Tax Identification No. 241-031-088

BIR Accreditation No. 08-001998-114-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8125210, January 7, 2020, Makati City

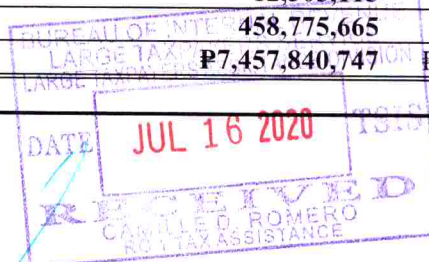
July 15, 2020



FPG INSURANCE CO., INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018 (As restated – Note 2)
ASSETS		
Cash and Cash Equivalents (Note 4)	₱1,029,009,847	₱808,740,044
Short-term Investments (Note 4)	4,165,263	1,336,400
Insurance Receivables (Note 5)	1,500,950,040	1,862,994,926
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 6)	591,305,184	419,425,785
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 6)	459,617,192	373,932,581
Financial Assets at Amortized Cost (Note 6)	944,154,168	981,956,882
Loans and Receivables (Note 7)	113,078,582	110,423,602
Reinsurance Assets (Notes 2, 8 and 14)	1,931,793,956	1,619,180,274
Accrued Interest Income (Note 9)	12,172,811	13,158,064
Deferred Acquisition Costs (Note 10)	345,878,956	350,090,841
Investment Properties (Note 11)	2,745	2,745
Property and Equipment (Note 12)	54,987,229	75,881,372
Right of Use Assets (Note 27)	93,765,151	–
Deferred Tax Assets (Note 24)	47,694,201	46,533,238
Other Assets (Note 13)	329,265,422	298,416,390
	₱7,457,840,747	₱6,962,073,144
LIABILITIES AND EQUITY		
LIABILITIES		
Insurance Contract Liabilities (Notes 2 and 14)	₱4,505,837,430	₱3,991,916,108
Insurance Payables (Note 15)	1,402,174,479	1,463,580,549
Accounts Payable and Accrued Expenses (Note 16)	874,058,882	792,519,877
Deferred Reinsurance Commissions (Note 10)	73,241,198	74,613,136
Lease Liability (Notes 27 and 29)	93,487,372	–
Net Pension Liability (Note 23)	27,265,721	7,946,941
Deposit for Future Stock Subscription (Note 17)	23,000,000	–
	6,999,065,082	6,330,576,611
EQUITY		
Capital Stock (Note 17)	350,000,000	350,000,000
Net Unrealized Gains on Financial Assets at FVOCI (Note 6)	65,738,711	4,075,126
Remeasurement Losses on Defined Benefit Obligation (Note 23)	(19,097,207)	(9,122,267)
Retained Earnings		
Unappropriated (Note 2)	49,629,046	274,038,559
Appropriated (Note 17)	12,505,115	12,505,115
	458,775,665	631,496,533
	₱7,457,840,747	₱6,962,073,144

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2019	2018 (As restated – Note 2)
Gross earned premiums on insurance contracts (Notes 14 and 18)	₱5,336,257,026	₱5,082,968,819
Reinsurers' share of gross earned premiums on insurance contracts (Notes 14 and 18)	2,233,945,104	2,285,463,482
NET INSURANCE EARNED PREMIUMS	3,102,311,922	2,797,505,337
Commission income (Note 10)	290,511,846	201,370,387
Gain (loss) on sale of financial assets at FVTPL (Note 6)	19,629,801	(50,280,972)
Investment income (Note 19)	96,303,790	87,015,519
Foreign exchange gain (loss) – net	(8,855,653)	303,099
Gain on sale of financial assets at FVOCI (Note 6)	5,579,762	11,759,553
Miscellaneous (Note 12)	302,070	455,801
OTHER INCOME	403,471,616	250,623,387
TOTAL INCOME	3,505,783,538	3,048,128,724
Gross insurance contract benefits and claims paid (Notes 14 and 20)	2,201,072,516	2,273,646,696
Reinsurers' share of gross insurance contract benefits and claims paid (Notes 14 and 20)	(314,667,944)	(573,628,391)
Gross change in insurance contract liabilities (Notes 2, 14 and 20)	740,829,818	541,979,908
Reinsurers' share of gross change in insurance contract liabilities (Notes 2, 14 and 20)	(373,954,223)	(187,776,869)
NET INSURANCE BENEFITS AND CLAIMS	2,253,280,167	2,054,221,344
EXPENSES		
Commission expense (Note 10)	804,502,811	804,754,330
Operating expenses (Note 21)	631,907,603	654,013,486
Interest expense (Notes 15 and 27)	9,143,143	1,035,978
TOTAL EXPENSES	1,445,553,557	1,459,803,794
TOTAL BENEFITS, CLAIMS AND OTHER EXPENSES	3,698,833,724	3,514,025,138
LOSS BEFORE INCOME TAX	(193,050,186)	(465,896,414)
PROVISION FOR INCOME TAX (Note 24)	30,642,033	5,859,464
NET LOSS	(₱223,692,219)	(₱471,755,878)

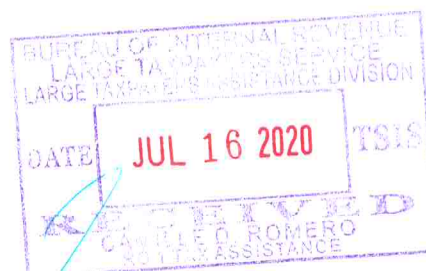
See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
		2018
		(As restated –
	2019	Note 2)
NET LOSS	(P223,692,219)	(P471,755,878)
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Items that will be reclassified to profit or loss in subsequent periods:</i>		
Unrealized fair value gains (losses) on financial assets at FVOCI (Note 6)	60,971,751	(38,589,115)
Transfers to profit and loss	691,834	(11,701,481)
	61,663,585	(50,290,596)
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement losses on defined benefit obligation (Note 23)	(14,249,914)	(12,350,690)
Tax effect	4,274,974	3,705,207
	(9,974,940)	(8,645,483)
	51,688,645	(58,936,079)
TOTAL COMPREHENSIVE LOSS	(P172,003,574)	(P530,691,957)

See accompanying Notes to Financial Statements.

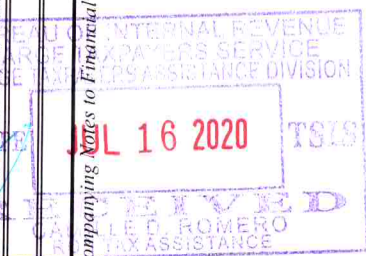


FPG INSURANCE CO., INC.

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Capital stock (Note 17)	Net unrealized gain on financial assets at FVOCI (Note 6)	Remeasurement losses on defined benefit obligation (Note 23)	Retained earnings		Total
				Unappropriated	Appropriated (Note 17)	
As of January 1, 2019	₱350,000,000	₱4,075,126	(₱9,122,267)	₱274,038,559	₱12,505,115	₱631,496,533
Effect of the adoption of Philippine Financial Reporting Standards (PFRS) 16, <i>Leases</i> (Note 2)	—	—	—	(717,294)	—	(717,294)
As of January 1, 2019, as restated	350,000,000	4,075,126	(9,122,267)	273,321,265	12,505,115	630,779,239
Net loss for the year	—	—	—	(223,692,219)	—	(223,692,219)
Other comprehensive income (loss)	—	61,663,585	(9,974,940)	—	—	51,688,645
Total comprehensive loss for the year	—	61,663,585	(9,974,940)	(223,692,219)	—	(172,003,574)
As of December 31, 2019	₱350,000,000	₱65,738,711	(₱19,097,207)	₱49,629,046	₱12,505,115	₱458,775,665
As of January 1, 2018	₱350,000,000	₱54,365,722	(₱476,784)	₱745,794,437	₱12,505,115	₱1,162,188,490
Net loss for the year, as previously reported	—	—	—	(88,569,008)	—	(88,569,008)
Restatement (Note 2)	—	—	—	(383,186,870)	—	(383,186,870)
Net loss for the year, as restated	—	—	—	(471,755,878)	—	(471,755,878)
Other comprehensive loss	—	(50,290,596)	(8,645,483)	—	—	(58,936,079)
Total comprehensive loss for the year, as restated	—	(50,290,596)	(8,645,483)	(471,755,878)	—	(530,691,957)
As of December 31, 2018, as restated	₱350,000,000	₱4,075,126	(₱9,122,267)	₱274,038,559	₱12,505,115	₱631,496,533

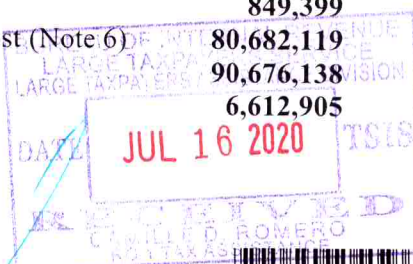
See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.
STATEMENTS OF CASH FLOWS

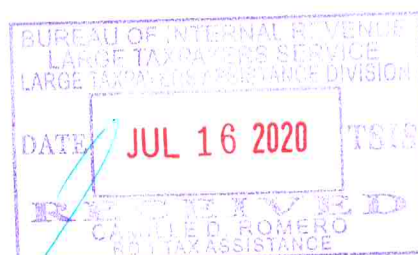
	Years Ended December 31	
	2019	2018 (As restated – Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(P193,050,186)	(P465,896,414)
Adjustments for:		
Loss (gain) on sale of investments at FVTPL (Note 6)	(19,629,801)	50,280,972
Interest income (Note 19)	(89,690,885)	(79,214,811)
Depreciation and amortization (Notes 12 and 27)	82,731,444	38,555,854
Retirement expense (Note 23)	13,064,924	12,341,802
Interest expense (Notes 15 and 27)	9,143,143	1,035,978
Provisions for (reversals of) expected credit losses (Note 21)	(8,989,133)	11,740,915
Dividend income (Note 19)	(6,612,905)	(7,800,708)
Gain on sale of investments at FVOCI (Note 6)	(5,579,762)	(11,759,553)
Gain on sale of property and equipment (Note 12)	(302,070)	(455,801)
Operating loss before working capital changes	(218,915,231)	(451,171,766)
Changes in operating assets and liabilities		
Decrease (increase) in:		
Insurance receivables	373,844,225	(435,294,949)
Short-term investments	(2,828,863)	(10,096)
Loans and receivables	(2,745,324)	(1,264,214)
Reinsurance assets	(312,613,682)	(245,124,082)
Deferred acquisition costs	4,211,885	(46,559,411)
Other assets	(41,757,262)	(2,671,521)
Increase (decrease) in:		
Insurance contract liabilities	513,921,322	763,470,645
Insurance payables	(61,406,070)	384,448,822
Deferred reinsurance commissions	(1,371,938)	12,529,914
Accounts payable and accrued expenses	80,048,797	151,623,535
Net cash generated from operations	330,387,859	129,976,877
Acquisition of investments in financial assets at FVTPL (Note 6)	(499,687,292)	(342,551,551)
Proceeds from sale of investments in financial assets at FVTPL (Note 6)	354,488,101	372,015,840
Income tax paid	(27,528,021)	(22,581,340)
Interest paid (Notes 15 and 27)	(9,143,143)	(1,035,978)
Contributions to retirement fund (Note 23)	(7,946,941)	–
Benefits paid out of Company's operating fund (Note 23)	(49,117)	–
Net cash provided by operating activities	140,521,446	135,823,848
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Investments in financial assets at FVOCI (Note 6)	232,569,303	24,468,462
Property and equipment (Note 12)	849,399	1,687,329
Proceeds from maturity of financial asset at amortized cost (Note 6)	80,682,119	–
Interest received	90,676,138	78,778,604
Dividends received (Note 19)	6,612,905	7,800,708

(Forward)



	Years Ended December 31	
	2019	2018 (As restated – Note 2)
Acquisitions of:		
Investments in financial assets at FVOCI (Note 6)	(P251,496,879)	(P222,637,724)
Investments in financial assets at amortized cost (Note 6)	(44,690,151)	–
Property and equipment (Note 12)	(22,501,049)	(43,841,687)
Net cash provided by (used in) investing activities	92,701,785	(153,744,308)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipt of deposit for future stock subscription (Note 17)	23,000,000	–
Payment of the principal portion of lease liability (Notes 27 and 29)	(35,953,428)	–
Net cash used in financing activities	(12,953,428)	–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	220,269,803	(17,920,460)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	808,740,044	826,660,504
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P1,029,009,847	P808,740,044

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

FPG Insurance Co., Inc. (the Company) is a nonlife insurance company incorporated in the Philippines in 1958. The Company offers insurance coverages for fire and allied perils, motor, casualty, marine, medical, personal accident and engineering. The Company has eleven (11) branches located in Angeles, Dagupan, Alabang, Binondo, Davao, Cagayan de Oro, Batangas, Quezon City, Cebu, Ortigas and Makati Business Lounge and nine (9) satellite offices located in Laguna, Palawan, General Santos, Tarlac, Bacolod, Iloilo City, Cavite, Masinag, and Commonwealth.

In a special Board of Directors' (BOD) meeting on November 12, 2007, 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 Securities and Exchange Commission (SEC) approved the Amended Articles of Incorporation on January 29, 2008.

In a special BOD meeting on November 19, 2014, it was approved that the Articles of Incorporation and By-laws will be amended to change the Company's name from Federal Phoenix Assurance Co., Inc. to FPG Insurance Co., Inc. On January 5, 2015 and February 3, 2015, the amendment of Articles of Incorporation and By-laws was approved by the Insurance Commission (IC) and SEC, respectively.

The Company's equity is being held by Golden Eight Group Limited (Parent Company), a holding company incorporated in the British Virgin Islands, and the ultimate holding company is Mandarin International Investments Pty. Ltd. (Ultimate Parent Company), a holding company incorporated in Australia. Zuellig Pharma Pte. Ltd., a company incorporated in Singapore, is the ultimate holding company before group restructuring effective August 27, 2018.

The registered office address of the Company is at 6th Floor, Zuellig Building, Makati Avenue corner Paseo de Roxas, Makati City.

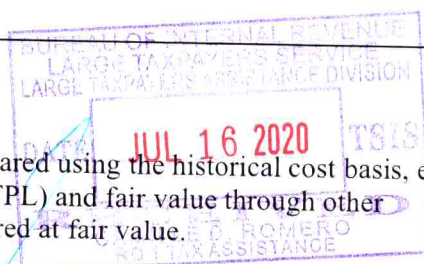
As of December 31, 2019 and 2018, the Company's statutory net worth amounted to negative ₱133,056,555 and ₱462,481,202, respectively, which are below the minimum net worth requirement of the IC. Furthermore, the Company's 2019 RBC ratio is less than 50%. As stated in IC Circular Letter No. 2016-2018, if RBC ratio is less than 50%, the IC is authorized to place the Company under the regulatory control in the best interest of the policy holders and creditors and of the general public. To address the statutory net worth deficiency, the Company applied to increase its authorized capital stock (see Note 17) and the Company's shareholders confirmed that they are prepared to infuse additional capital during the year (see Note 30). The IC also granted an extension for the Company to complete the required capital infusion to comply with the minimum net worth and minimum capital investment requirements as of December 31, 2019 (see Note 30).

The accompanying financial statements were authorized for issue by the BOD on July 15, 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) and fair value through other comprehensive income (FVOCI) that have been measured at fair value.



The financial statements are presented in Philippine peso (PHP or ₱) which is also the Company's functional currency. All amounts are rounded off to the nearest peso, unless otherwise indicated.

Statement of Compliance

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

Changes in Accounting Policies

Except for the following new and amended standards and interpretations which were adopted as of January 1, 2019, the accounting policies and methods of computation adopted in the preparation of the financial statements are consistent with those followed in the previous financial year. The adoption of the following accounting pronouncements did not have any impact on the financial statements unless otherwise indicated.

- PFRS 16, *Leases*

PFRS 16 supersedes Philippine Accounting Standards 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. Therefore, PFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application without restating comparative information. The Company has elected to apply PFRS 16 transition to contracts that were previously identified as leases applying PAS 17 and IFRIC 4. The Company will therefore 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 PFRS 16 as at January 1, 2019 follow:

	Increase (decrease)
Assets	
Right of use assets	₱127,580,776
Other assets	(10,908,230)
Property and equipment	(717,294)
Liabilities	
Lease liabilities	123,198,853
Accounts payable and accrued expenses	(5,983,004)
Equity	
Retained earnings	(717,294)



The Company's lease agreements pertain to its office spaces with specifically identified parking slots. Before the adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of PFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2 for the accounting policy beginning January 1, 2019.

The Company also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:

- Right-of-use assets of ₱127,580,776 million were recognized and presented separately in the statement of financial position.
- Lease liabilities of ₱123,198,853 million were recognized.
- Prepayments of ₱10,908,230 million and accrued rent of ₱5,983,004 million related to previous operating leases arising from straight lining under PAS 17 were derecognized.
- Acceleration of depreciation of leasehold improvements due to the change in lease term amounting to ₱717,294 which is charged to beginning retained earnings.

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

Operating lease commitments as at 31 December 2018	₱1,622,426,879
Less: Commitments relating to short term leases	1,389,340
	1,621,037,539
Weighted average incremental borrowing rate at 1 January 2019	7.60%
Lease liabilities recognized at 1 January 2019	₱123,198,853

The adoption of PFRS 16 will not have an impact on equity in 2019, since the Company elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application. However, acceleration of depreciation of leasehold improvements because of the change in lease term of agreements with no enforceable renewal option is charged to beginning retained earnings.

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 short-term leases and 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.



- 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, and 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 Company 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 Company 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.

Upon adoption of the Interpretation, the Company has assessed whether it has any uncertain tax position. The Company applies significant judgement in identifying uncertainties over its income tax treatments. The Company determined, based on its assessment, that it is probable that its uncertain tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have a significant impact on the financial statements.

- 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*

Restatement

In 2019, the Company restated its December 31, 2018 financial statements to recognize additional insurance claims and reinsurance assets pertaining to 2018 transactions that were subsequently identified as a result of the Company's ongoing review of its records and documents.



The table below shows the summary of the impact of restatement in the Company's financial position and financial performance as of December 31, 2018.

	December 31, 2018, as previously reported	Restatement	December 31, 2018, as restated
Statement of Financial Position			
<i>Assets</i>			
Reinsurance asset	₱1,617,844,231	₱1,336,043	₱1,619,180,274
<i>Liabilities</i>			
Insurance contract liabilities	3,607,393,195	384,522,913	3,991,916,108
<i>Equity</i>			
Retained earnings – Unappropriated	657,225,429	(383,186,870)	274,038,559
Statement of Comprehensive Income			
<i>Net insurance benefits and claims</i>			
Gross change in insurance contract liabilities	₱157,456,995	₱384,522,913	₱541,979,908
Reinsurers' share of gross change in insurance contract liabilities	(186,440,826)	(1,336,043)	(187,776,869)

The retrospective restatement has no effect on the Company's financial statements as of January 1, 2018.

Significant Accounting Policies

Foreign Currency Transactions and Translations

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

Product Classification

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.

Insurance contracts mainly transfer financial risk but can also transfer insignificant insurance risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all



rights and obligations are extinguished or has expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Fair Value Measurement

For measurement and disclosure purposes, the Company determines fair value of an asset or a liability at initial measurement date or at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

A fair value measurement of a nonfinancial 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 is 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 statement 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) and at the end of each reporting period.

Cash and Cash Equivalents

Cash comprises 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 the date of acquisition and are subject to 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.

Insurance Receivables

Insurance receivables 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, using the effective interest rate method.

Insurance receivables are derecognized following the derecognition criteria of financial assets.

Financial Instruments

Date of recognition

Financial instruments within the scope of PFRS 9, *Financial Instruments*, are recognized 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 using the settlement date accounting.

Initial measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Insurance receivables are recognized on policy inception dates measured on initial recognition at the fair value of the consideration receivable for the period of coverage.

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

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

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

- Financial assets at amortized cost (debt instruments),
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments),



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

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 method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

In 2019 and 2018, the Company's financial assets at amortized cost includes 'cash in banks', 'short-term investments', 'financial assets at amortized cost', 'insurance receivables', and 'security deposits'.

Financial assets at fair value through OCI (debt instruments)

The Company measures financial assets 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 solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss 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 profit or loss.

In 2019 and 2018, the Company's financial assets at fair value through OCI includes investments in quoted debt instruments.

Financial assets at fair value through OCI (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 other income 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 OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.



In 2019 and 2018, the Company has not classified any of its equity investments to be measured at fair value through OCI.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, 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, including separated embedded 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 fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes listed equity investments which the Company had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at amortized cost

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as finance costs in the statement of profit or loss.

The Company's financial liabilities at amortized cost include 'accounts payable and accrued expenses'.

Other financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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. The Company assesses that it has a currently enforceable right of offset if the right is



not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Impairment of Financial Assets

The Company recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. 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 and loans and receivables, 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.

For cash, short-term investments, and debt instruments at amortized cost and fair value through OCI, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the internal credit rating of the financial assets. 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 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 Financial 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 primarily derecognized (i.e., removed from the Company's statement of financial position) when:

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



When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

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

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 date 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 against the statement 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 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.

When the Company enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Company initially recognizes a liability at transaction price upon inception of the underlying contract. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as 'insurance payables' in the liabilities section of the company statement of financial position will be withheld and recognized as 'funds held for reinsurers'. The amount of funds held by reinsurers is a percentage of the insurance payable, as required by the IC and also included as part of the insurance payables in the liabilities section of the



company statement of financial position. The amount withheld is generally released after a year (assuming that the underlying agreement is due within a year) or when treaty agreement is terminated.

Deferred Acquisition Costs (DAC)

Commission 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 an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method. Amortization is charged against the statement 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 end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged against the statement of income. The deferred acquisition cost is also considered in the liability adequacy test for each end of the reporting period.

Investment Property

Land held for long term rental yields and/or for capital appreciation is classified as investment property. In the same way, land held for currently undetermined future use is an investment property.

Investment property is carried at cost net of any impairment in value.

Investment property is derecognized when it has either been disposed of or the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses from derecognition of an investment property are recognized in the statement of income in the year of derecognition.

Transfers are made to investment property when there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization 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 expenses are charged to the statement of income during the financial period in which they are incurred.



Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets as follows:

	Years
Computer equipment	3
Transportation equipment	5
Office furniture, fixtures and equipment	3
Leasehold improvements	3 or remaining lease term, whichever is shorter

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

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

Impairment of Nonfinancial Assets

The Company assesses at each end of the reporting period whether there is an indication that an asset 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 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 group 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. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, 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 any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining estimated useful life.

Creditable Withholding Taxes (CWTs)

Creditable withholding pertains to the 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 end of the tax reporting deadline, these CWTs may either be offset against future income tax payable or be claimed as a refund from the taxation authorities at



the option of the Company. If these CWTs are claimed as a refund, these will be recorded as a receivable under “loans and receivables” account.

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

Value-added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of sales tax except:

- where the tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the tax authority is included as part of “other assets” or “accounts payable and accrued expenses” in the statement of financial position.

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 commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. 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 relate to the unexpired periods of the policies at end of the reporting period are accounted for as provision for unearned premiums as part of insurance contract liabilities and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Provision for Claims Reported and Incurred But Not Reported (IBNR) Losses

Provision for claims reported and IBNR losses are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and 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 which cannot be known with certainty at the reporting date. The IBNR shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, the expected loss ratio approach, the Bornhuetter - Ferguson method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision.

Liability Adequacy Test

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities. Any inadequacy is immediately charged against the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.



Pension Cost

The net defined benefit liability or asset 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 (if any), 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 actuary.

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 other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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.

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Equity

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to additional paid-in capital account.



Additional paid-in capital includes any premiums received in excess of par value on the issuance of capital stock.

Share issuance costs incurred as necessary part of completing an equity transaction are accounted for as part of that transaction and are treated as a deduction from additional paid-in capital from previous share issuance. If the additional paid-in capital account is not sufficient, the excess is deducted from retained earnings.

Retained earnings include all the accumulated earnings of the Company, less any amount of dividends declared.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Premiums Revenue

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

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 relate 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. 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. The net changes in these accounts between reporting dates are included in the determination of net insurance revenue.

Reinsurance Commissions

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 relate to the unexpired periods of the policies at end of the reporting period are accounted for as deferred reinsurance commissions and presented in the liabilities section of the statement of financial position.

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income.



Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Dividend income

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

Benefits and Claims

Benefits and claims consist of benefits and claims paid to policyholders, which includes changes in the valuation of insurance contract liabilities, including IBNR. The IBNR shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, the expected loss ratio approach, the Bornhuetter - Ferguson method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision. 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 and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Expenses

Expenses are recognized when there is a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably. Operating expenses and interest expense, except for lease agreements, are recognized in the statement of income as they are incurred.

Leases

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 a consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and 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.

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.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

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 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 the incremental borrowing rate at the lease commencement date if 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 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 in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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 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) 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. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

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 substantially enacted at the end of the reporting period.

Deferred Tax

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



Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply 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 income 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 other comprehensive income is also recognized in the statement of other comprehensive income.

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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 the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingencies

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



Events After the Reporting Period

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

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Company intends to adopt these pronouncements when they become effective. Adoption of these pronouncements is not expected to have any significant impact on the financial statements of the Company unless otherwise indicated.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 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 PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The Company is currently assessing the impact of adopting PFRS 17.

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*



3. Significant Accounting Judgments and Estimates

The preparation of the financial statements necessitates the use of judgments and estimates. These judgments and estimates affect the reported amounts of assets and liabilities and contingent liabilities at the reporting period date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the reporting date, the actual outcome may differ from these estimates, possibly significantly.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

a. Product classification

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

The Company has determined that the insurance policies it issues have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

b. Determination of lease term of contracts with renewal and termination options – Company as a lessee

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

Estimates

a. 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 available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).



The present value of the lease payments is determined using the discount rate representing the rate of interest applicable for currency of the lease contract and for similar tenor, adjusted by credit spread of the Company, observed in the period when the lease contract commences or is modified. The carrying amount of the right-of-use asset and lease liability amounted to ₱93,765,151 and ₱93,487,372, respectively, as of December 31, 2019 (see Note 27).

b. *Impairment of financial assets*

The Company uses a provision matrix to calculate ECLs for financial assets for insurance receivables and loans and receivables. The provision matrix is initially based on the Company's historical observed default rates.

For investments classified and measured at amortized cost and FVOCI, the Company uses the available historical default rate based on the credit rating of the specific investments.

The Company will adjust the historical default rates with forward-looking information, if any. For instance, if forecast economic conditions (i.e., inflation and gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the industry, the historical default rates are adjusted. At every reporting date, the historical default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Allowance for expected credit losses for insurance receivables amounted to ₱29,252,077 and ₱41,051,417 as of December 31, 2019 and 2018, respectively (see Note 5).

Allowance for impairment losses for investments in financial assets at amortized cost amounted to ₱2,883,348 and ₱1,072,602 as of December 31, 2019 and 2018, respectively (see Note 6).

In 2019 and 2018, the Company has recognized ECL on its financial assets at FVOCI amounting to ₱909,117 and ₱58,072, respectively (see Note 6).

Allowance for expected credit losses for loans and receivables amounted to ₱52,129,038 and ₱52,038,694 as of December 31, 2019 and 2018, respectively (see Note 7).

c. *Claims liability arising from insurance contracts*

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision. The IBNR provision of the Company has been calculated using standard actuarial projection techniques using past development patterns to determine the expected future development and project the claim amounts for each accident year to its ultimate value. A number of different valuation methodologies have been adopted, each with their own strengths and blended them together which include: (a) paid chain ladder method (with and without Bornhuetter-Ferguson (BF) adjustments); (b) reported chain ladder method (with and without BF adjustments); and (c) expected loss ratio method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision.



The main assumptions underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. Historical claims development is mainly analyzed by accident years, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor 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 historic claims development data on which the projections are based.

The carrying values of provision for outstanding claims and IBNR amounted to ₱2,596,853,080 and ₱1,856,023,262 as of December 31, 2019 and 2018, respectively (see Note 14).

d. Fair values of financial assets

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value of these financial assets and liabilities would affect profit or loss and equity.

As of December 31, 2019 and 2018, the total fair value of financial assets at FVTPL and FVOCI amounted to ₱1,050,922,376 and ₱793,358,366 (see Note 6).

e. Pension liability

The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, future salary increase rates, mortality rates, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date. Refer to Note 23 for the details of assumptions used in the calculation.

In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately under other comprehensive income in the statements of comprehensive income. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

The Company's net pension obligation amounted to ₱27,265,721 and ₱7,946,941 as of December 31, 2019 and 2018, respectively (see Note 23).

f. Recognition of deferred tax assets

Deferred tax assets are recognized for all temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment 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.

The deferred tax assets recognized as of December 31, 2019 and 2018 amounted to ₱47,694,201 and ₱46,533,238, respectively (see Note 24).

4. Cash and Cash Equivalents and Short-term Investments

Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	₱164,300	₱171,800
Cash in banks	527,376,839	408,717,032
Cash equivalents	501,468,708	399,851,212
	₱1,029,009,847	₱808,740,044

Cash on hand pertains to administrative petty cash and revolving fund used for payment of operating expenses, commissions, and claims payment for the branches and satellite offices.

Cash in banks earns interest at the respective bank's deposit rates. It earns interest ranging from 0.10% to 0.50% in 2019 and 2018.

Cash equivalents are made for varying periods of up to three months or less depending on the immediate cash requirements of the Company and earn interest ranging from 0.50% to 4.50% in 2019 and 2018.

Short-term Investments

Short-term investments pertain to time deposits with terms of more than 90 days but less than 360 days and earn interest at 1.25% in 2019 and 2018.

Interest income earned from cash and cash equivalents and short-term investments amounted to ₱10,335,177 and ₱7,883,856 in 2019 and 2018, respectively (see Note 19).

5. Insurance Receivables

This account consists of:

	2019	2018
Due from:		
Brokers and agents	₱1,121,892,249	₱1,432,299,085
Ceding companies and reinsurers	285,964,085	309,309,877
Reinsurance recoverable on paid losses	122,345,783	162,437,381
	1,530,202,117	1,904,046,343
Less: Allowance for expected credit losses	29,252,077	41,051,417
	₱1,500,950,040	₱1,862,994,926



Due from brokers and agents are premiums collected by the brokers from policyholders. Due from ceding companies and reinsurers are premium-related balances due from insurance companies seeking reinsurance from the Company.

Reinsurance recoverable on paid losses pertains to recoveries of the Company for policies where claims payment was made from facultative and treaty reinsurers.

The following table shows aging information of insurance receivables balances:

	2019					Total
	1 to 90 days	91 to 120 days	121 to 150 days	151 to 210 days	211 to 360 days	
Due from brokers and agents	₱1,003,191,057	₱24,076,272	₱12,027,658	₱59,405,518	₱23,191,744	₱1,121,892,249
Due from ceding companies and reinsurers	1,646,794	7,848,639	2,496,876	9,294,505	264,677,271	285,964,085
Reinsurance recoverable on paid losses	31,869,075	1,515,713	28,442,976	5,321,031	55,196,988	122,345,783
	₱1,036,706,926	₱33,440,624	₱42,967,510	₱74,021,054	₱343,066,003	₱1,530,202,117
	2018					Total
	1 to 90 days	91 to 120 days	121 to 150 days	151 to 210 days	211 to 360 days	
Due from brokers and agents	₱1,342,364,969	₱12,068,335	₱6,913,569	₱50,824,339	₱20,127,873	₱1,432,299,085
Due from ceding companies and reinsurers	1,358,131	12,286,475	1,370,544	15,823,477	278,471,250	309,309,877
Reinsurance recoverable on paid losses	60,931	107,807	241,944	1,098,557	160,928,142	162,437,381
	₱1,343,784,031	₱24,462,617	₱8,526,057	₱67,746,373	₱459,527,265	₱1,904,046,343

As of December 31, 2019 and 2018, allowance for expected credit losses on insurance receivables as follows:

	2019			Total
	Due from brokers and agents	Due from ceding companies and reinsurers	Reinsurance recoverable on paid losses	
Balance at beginning of year	₱19,559,223	₱8,127,489	₱13,364,705	₱41,051,417
Reversals of expected credit losses during the period (Note 21)	(3,980,031)	(2,222,177)	(5,597,132)	(11,799,340)
Balance at end of year	₱15,579,192	₱5,905,312	₱7,767,573	₱29,252,077
	2018			Total
	Due from brokers and agents	Due from ceding companies and reinsurers	Reinsurance recoverable on paid losses	
Balance at beginning of year	₱15,070,999	₱1,732,776	₱12,935,336	₱29,739,111
Provision for expected credit losses during the period (Note 21)	4,488,224	6,394,713	429,369	11,312,306
Balance at end of year	₱19,559,223	₱8,127,489	₱13,364,705	₱41,051,417



6. Investments in Financial Assets

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

	2019	2018
Investments in securities		
Financial assets at FVTPL	₱591,305,184	₱419,425,785
Financial assets at FVOCI	459,617,192	373,932,581
Financial assets at amortized cost	944,154,168	981,956,882
	₱1,995,076,544	₱1,775,315,248

As of December 31, 2019 and 2018, investments in securities included in each of the categories above are detailed as follows:

	2019		
	FVTPL	FVOCI	Amortized cost
Equity securities			
Listed common shares	₱514,909,266	₱—	₱—
Club shares	28,100,000	—	—
Unit Investment Fund	48,275,918	—	—
Unlisted shares	20,000	—	—
Debt securities			
Government treasury bonds/bills	—	459,617,192	850,854,404
Corporate bonds	—	—	96,183,112
	591,305,184	459,617,192	947,037,516
Less: Allowance for expected credit losses	—	—	2,883,348
	₱591,305,184	₱459,617,192	₱944,154,168
	2018		
	FVTPL	FVOCI	Amortized cost
Equity securities			
Listed common shares	₱379,105,785	₱—	₱—
Club shares	25,650,000	—	—
Unit Investment Fund	14,650,000	—	—
Unlisted shares	20,000	—	—
Debt securities			
Government treasury bonds/bills	—	373,932,581	931,536,522
Corporate bonds	—	—	51,492,962
	419,425,785	373,932,581	983,029,484
Less: Allowance for expected credit losses	—	—	1,072,602
	₱419,425,785	₱373,932,581	₱981,956,882



The carrying values of investment in securities have been determined as follows:

	2019	2018
Balance at beginning of year	₱1,775,315,248	₱1,697,956,623
Additions	795,874,322	565,189,275
Disposals	(524,296,770)	(396,484,302)
Net amortization of bond premium	(1,170,756)	(1,403,659)
Market valuation losses on financial assets at FVTPL	(114,096,382)	(50,280,972)
Unrealized fair value gains (losses) on financial assets at FVOCI	66,334,230	(38,589,115)
	1,997,959,892	1,776,387,850
Less: Allowance for expected credit losses	2,883,348	1,072,602
Balance at end of year	₱1,995,076,544	₱1,775,315,248

The costs or amortized cost of investment in securities are as follows:

	2019	2018
Equity securities		
Listed common shares	₱511,591,720	₱426,052,405
Club shares	28,400,000	1,200,000
Unit Investment Fund	48,180,000	14,650,000
Unlisted shares	20,000	20,000
Debt securities		
Government treasury bonds/bills	1,246,046,000	1,301,797,976
Corporate bonds	96,183,113	51,492,962
	1,930,420,833	1,795,213,343
Less: Allowance for expected credit losses	2,883,348	1,072,602
	₱1,927,537,485	₱1,794,140,741

A reconciliation of the fair value measurement of investments in financial assets at FVOCI is shown below:

	2019	2018
Balance at beginning of the year	₱4,075,126	₱54,365,722
Unrealized fair value gain (loss)	66,334,230	(38,589,115)
Transferred to profit or loss		
Gain on sale	(5,579,762)	(11,759,553)
Impairment loss	909,117	58,072
Balance at end of year	₱65,738,711	₱4,075,126

Adoption of ECL in the impairment of financial assets at FVOCI, before market valuation, resulted in credit loss amounting to ₱909,117 and ₱58,072 charged to profit or loss in 2019 and 2018, respectively.



As of December 31, 2019, allowance for impairment losses on financial assets at amortized cost follows:

	2019	2018
Balance at beginning of year	₱1,072,602	₱732,796
Provision for expected credit losses during the period (Note 21)	1,810,746	339,806
Balance at end of year	₱2,883,348	₱1,072,602

As of December 31, 2019 and 2018, government securities (recorded under “financial assets at amortized cost”) deposited with the IC in accordance with the provision of the Insurance Code (the Code) amounted to ₱145,000,000. These deposited government securities serve as security for the benefit of policyholders and creditors of the Company. In relation to the increase in the minimum net worth requirements, the amount of government securities deposited with the IC as of December 31, 2019 should be ₱225,000,000 which is 25% of the required minimum net worth. However, the Company was granted an extension of until April 15, 2020 to comply with the minimum net worth requirements as discussed in Notes 25 and 30.

Gain or loss on sale of financial assets of financial assets at FVTPL amounted to a gain of ₱19,629,801 in 2019 and a loss of ₱50,280,972 in 2018.

Interest income earned from financial assets at FVOCI and amortized cost amounted to ₱79,355,708 and ₱71,330,955 in 2019 and 2018, respectively (see Note 19).

Dividend income from financial assets at FVTPL amounted to ₱6,612,905 and ₱7,800,708 in 2019 and 2018, respectively (see Note 19).

7. Loans and Receivables

This account consists of:

	2019	2018
Accounts receivable	₱157,542,895	₱156,834,857
Employee receivables	7,664,725	5,627,439
	165,207,620	162,462,296
Less: Allowance for expected credit losses	52,129,038	52,038,694
	₱113,078,582	₱110,423,602

Accounts receivable includes receivable from Mercator Holdings and Management Corporation, a related party (see Note 26), amounting to ₱147,130,776 and ₱147,071,023 as of December 31, 2019 and 2018, respectively, arising from sale on account of investment property in prior years.

The following table shows aging information of loans and receivables:

	2019					
	1 to 30 days	31 to 60 days	61 to 120 days	121 to 180 days	> 180 days	Total
Accounts receivable	₱1,678,378	₱400,078	₱2,504,270	₱1,719,635	₱151,240,534	₱157,542,895
Employee receivables	1,963,655	528,203	361,296	2,102,053	2,709,518	7,664,725
	₱3,642,033	₱928,281	₱2,865,566	₱3,821,688	₱153,950,052	₱165,207,620



	2018					
	1 to 30 days	31 to 60 days	61 to 120 days	121 to 180 days	> 180 days	Total
Accounts receivable	P876,770	P510,438	P1,751,016	P477,592	P153,219,041	P156,834,857
Employee receivables	781,521	1,217,638	1,499,189	1,393,275	735,816	5,627,439
	P1,658,291	P1,728,076	P3,250,205	P1,870,867	P153,954,857	P162,462,296

Movements in the allowance for expected credit losses as of December 31, 2019 and 2018 follows:

	2019	2018
Balance at beginning of year	P52,038,694	P52,012,138
Provision for expected credit losses during the period (Note 21)	90,344	26,556
Balance at end of year	P52,129,038	P52,038,694

8. Reinsurance Assets

This account consists of:

	2019	2018 (As restated – Note 2)
Reinsurance recoverable on unpaid losses (Note 14)	P1,312,772,325	P938,818,102
Deferred reinsurance premiums (Note 14)	619,021,631	680,362,172
	P1,931,793,956	P1,619,180,274

Deferred reinsurance premiums are reinsurance premiums ceded that pertain to the unexpired periods at reporting date.

9. Accrued Interest Income

This account consists of:

	2019	2018
Accrued interest income from:		
Financial assets at FVOCI (Note 6)	P7,094,897	P9,079,567
Financial assets at amortized cost (Note 6)	4,969,972	4,057,020
Cash and cash equivalents and short-term investments (Note 4)	107,942	21,477
	P12,172,811	P13,158,064



10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs

The rollforward analysis of this account follows:

	2019	2018
At January 1	₱350,090,841	₱303,531,430
Costs deferred during the year	800,290,926	851,313,741
Amortization during the year	(804,502,811)	(804,754,330)
At December 31	₱345,878,956	₱350,090,841

Deferred acquisition cost pertains to the portion of the commission expense that relates to the unexpired periods of policies at reporting date.

Deferred Reinsurance Commissions

The rollforward analysis of this account follows:

	2019	2018
At January 1	₱74,613,136	₱62,083,222
Income deferred during the year	289,139,908	213,900,301
Amortization during the year	(290,511,846)	(201,370,387)
At December 31	₱73,241,198	₱74,613,136

Deferred reinsurance commissions pertain to the portion of commission income that relates to the unexpired periods of the policies at reporting date.

11. Investment Properties

This account consists of real estate properties foreclosed from former insurance agents of the Company located in Bulacan. The fair values of the properties were estimated using the Sales Comparison Approach. This is a comparative approach that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

As of December 31, 2019 and 2018, the estimated fair values of the remaining properties in Bulacan amounted to ₱1,176,414. The valuation was performed by an independent appraiser. Description of the valuation technique used and key inputs to the valuation on investment properties in 2019 and 2018 follows:

Location	Valuation techniques	Quoted prices in active markets	Range (weighted average)
San Miguel, Bulacan	Sales Comparison Approach	Estimated Computed Value per sqm	₱106 to ₱225
			(₱191)
		Net price (₱/sq. m)	₱90 to ₱225
		Internal factor	
		Location	-20% to 0%
		Size	-18% to 20%
		Algebraic sum of internal factor	0% to 18%

As of December 31, 2019 and 2018, the carrying value of investment property amounted to ₱2,745.



12. Property and Equipment

The rollforward analyses of this account follows:

2019					
	Computer Equipment	Leasehold Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost					
At January 1, 2019	₱84,279,634	₱11,555,577	₱35,838,178	₱5,059,901	₱136,733,290
Additions	12,822,812	2,184,312	7,225,553	268,372	22,501,049
Disposals	—	—	(2,115,707)	—	(2,115,707)
Retirements	(7,927,975)	(3,395,010)	(2,128,777)	(2,695,939)	(16,147,701)
At December 31, 2019	89,174,471	10,344,879	38,819,247	2,632,334	140,970,931
Accumulated depreciation and amortization					
At January 1, 2019	₱34,318,897	₱5,153,429	₱18,457,081	₱2,922,511	₱60,851,918
Transition adjustment (Note 2)	—	717,294	—	—	717,294
At January 1, 2019, as restated	34,318,897	5,870,723	18,457,081	2,922,511	61,569,212
Depreciation and amortization during the year (Note 21)	29,520,751	5,511,683	5,646,945	1,451,190	42,130,569
Disposals	—	—	(1,568,378)	—	(1,568,378)
Retirements	(7,927,975)	(3,395,010)	(2,128,777)	(2,695,939)	(16,147,701)
At December 31, 2019	55,911,673	7,987,396	20,406,871	1,677,762	85,983,702
Net book value as of December 31, 2019	₱33,262,798	₱2,357,483	₱18,412,376	₱954,572	₱54,987,229

2018					
	Computer Equipment	Leasehold Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost					
At January 1, 2018	₱56,936,167	₱11,882,092	₱36,523,642	₱7,023,897	₱112,365,798
Additions	34,519,561	5,537,294	2,879,286	905,546	43,841,687
Disposals	—	—	(2,720,536)	—	(2,720,536)
Retirements	(7,176,094)	(5,863,809)	(844,214)	(2,869,542)	(16,753,659)
At December 31, 2018	84,279,634	11,555,577	35,838,178	5,059,901	136,733,290
Accumulated depreciation and amortization					
At January 1, 2018	16,505,315	6,828,015	13,613,920	3,591,481	40,538,731
Depreciation and amortization during the year (Note 21)	24,989,676	4,189,223	7,176,383	2,200,572	38,555,854
Disposals	—	—	(1,489,008)	—	(1,489,008)
Retirements	(7,176,094)	(5,863,809)	(844,214)	(2,869,542)	(16,753,659)
At December 31, 2018	34,318,897	5,153,429	18,457,081	2,922,511	60,851,918
Net book value as of December 31, 2018	₱49,960,737	₱6,402,148	₱17,381,097	₱2,137,390	₱75,881,372

In 2019 and 2018, the Company disposed of certain assets which resulted in gain on sale of property and equipment amounting to ₱302,070 and ₱455,801, respectively, recorded as miscellaneous income in the statements of income.



13. Other Assets

This account consists of:

	2019	2018
Creditable withholding tax	₱280,343,977	₱238,176,552
Security deposits	35,789,017	34,616,034
Prepaid expenses	13,077,268	25,568,644
Security fund	55,160	55,160
	₱329,265,422	₱298,416,390

Creditable withholding taxes pertain to the Company's taxes withheld at source by its customers and is creditable against the income tax liability of the Company.

Security deposits are payments made by the Company in leasing building and parking space, and these amounts are set aside by the lessor to be used on the last period of the lease term.

14. Insurance Contract Liabilities and Reinsurance Assets

Insurance contract liabilities may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2019	Insurance Contract Liabilities (As restated – Note 2)	Reinsurers' Share of Liabilities (As restated – Note 2)	Net 2018 (As restated – Note 2)
Provision for claims reported and loss adjustment expenses	₱1,677,375,800	₱930,658,444	₱746,717,356	₱1,143,943,967	₱635,138,868	₱508,805,099
Provision for IBNR	919,477,280	382,113,881	537,363,399	712,079,295	303,679,234	408,400,061
Total claims reported and IBNR	2,596,853,080	1,312,772,325	1,284,080,755	1,856,023,262	938,818,102	917,205,160
Provision for unearned premiums	1,908,984,350	619,021,631	1,289,962,719	2,135,892,846	680,362,172	1,455,530,674
Total Insurance Contract Liabilities	₱4,505,837,430	₱1,931,793,956	₱2,574,043,474	₱3,991,916,108	₱1,619,180,274	₱2,372,735,834

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

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2019	Insurance Contract Liabilities (As restated – Note 2)	Reinsurers' Share of Liabilities (As restated – Note 2)	Net 2018 (As restated – Note 2)
At January 1	₱1,856,023,262	₱938,818,102	₱917,205,160	₱1,314,043,354	₱751,041,233	₱563,002,121
Claims incurred during the year	2,734,504,349	610,187,520	2,124,316,829	2,353,219,630	564,573,828	1,788,645,802
Increase in IBNR (Note 20)	207,397,985	78,434,647	128,963,338	462,406,974	196,831,432	265,575,542
Claims paid during the year (Note 20)	(2,201,072,516)	(314,667,944)	(1,886,404,572)	(2,273,646,696)	(573,628,391)	(1,700,018,305)
At December 31	₱2,596,853,080	₱1,312,772,325	₱1,284,080,755	₱1,856,023,262	₱938,818,102	₱917,205,160



Provisions for unearned premiums may be analyzed as follows:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net 2019	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net 2018
At January 1	₱2,135,892,846	₱680,362,172	₱1,455,530,674	₱1,914,402,109	₱623,014,959	₱1,291,387,150
New policies written during the year (Note 18)	5,109,348,530	2,172,604,564	2,936,743,966	5,304,459,556	2,342,810,695	2,961,648,861
Premiums earned during the year (Note 18)	(5,336,257,026)	(2,233,945,105)	(3,102,311,921)	(5,082,968,819)	(2,285,463,482)	(2,797,505,337)
At December 31	₱1,908,984,350	₱619,021,631	₱1,289,962,719	₱2,135,892,846	₱680,362,172	₱1,455,530,674

Terms and Conditions

The major classes of general insurance written by the Company include motor, property, casualty, marine and engineering. Risks under these policies usually cover a 12-month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and IBNR claims) 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 reporting date.

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.

The measurement process primarily includes projections of future claims through use of historical experience statistics. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by class of business. In addition, claims are usually assessed by loss adjusters.

In insurance, as a rule, there may be claims filed in the current year that would attach policies issued in the previous years. This in effect makes claims provision highly sensitive. Other unpredictable circumstances, like legislative uncertainties, make it impossible to quantify claims. Also, due to delays arising between occurrence of claims and their subsequent reporting to and settlement by the Company, the outstanding claim provisions cannot be ascertained with confidence at the end of the reporting period. Consequently, the ultimate liabilities will vary as a result of subsequent developments.

Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent years' financial statements.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.



Sensitivities

The table below shows the impact of changes in certain important assumptions in general insurance business. The interrelation of these assumptions will have an important impact in the computation of the final liabilities.

2019				
	Change in Assumption	Impact on insurance contract liabilities - net of reinsurance assets	Impact on profit before tax	Impact on equity
Average claim costs	-15.00%	(₱399,334,663)	₱399,334,663	₱279,534,264
Average number of claims	21.00%	470,871,335	(470,871,335)	(329,609,935)
2018 (As restated – Note 2)				
	Change in Assumption	Impact on insurance contract liabilities - net of reinsurance assets	Impact on profit before tax	Impact on equity
Average claim costs	-24.00%	(₱568,082,973)	₱568,082,973	₱397,658,081
Average number of claims	15.00%	300,114,533	(300,114,533)	(210,080,173)

Loss Development Triangle

The tables that follow present the development of the estimated ultimate claims costs on a gross and net reinsurance basis. The tables show the cumulative amounts of the estimated ultimate claims costs during successive years related to each accident year. The increase from the original estimate is due to the combination of a number of factors, including claims being settled for larger amounts than originally expected. The original estimate will also increase or decrease, as more information becomes known about the individual claims and overall claim frequency and severity.



2019

Accident Year	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:												
At the end of accident year	P5,973,453,883	P448,731,836	P1,019,968,706	P925,722,497	P2,028,516,617	P2,291,517,062	P1,064,534,155	P1,072,674,346	P1,830,487,601	P2,312,703,114	P2,286,209,308	P2,286,209,308
One year later	5,576,073,759	445,692,289	1,110,920,652	1,140,893,162	2,132,963,083	2,305,310,938	1,162,326,099	1,397,491,163	1,970,932,199	4,076,327,995	-	4,076,327,995
Two years later	5,410,502,115	429,887,967	1,099,132,100	1,118,179,517	2,160,388,700	2,097,875,280	1,148,835,349	1,390,885,152	2,373,270,997	-	-	2,373,270,997
Three years later	5,375,909,571	429,515,482	1,095,623,582	962,574,524	2,040,162,012	2,086,915,609	1,135,162,520	1,429,131,852	-	-	-	1,429,131,852
Four years later	5,409,144,296	428,598,504	1,027,443,377	963,342,761	2,029,137,437	2,086,174,393	1,142,256,537	-	-	-	-	1,142,256,537
Five years later	5,375,359,774	427,544,062	1,028,684,643	961,122,827	2,028,126,454	2,123,387,258	-	-	-	-	-	2,123,387,258
Six years later	5,368,704,433	426,148,191	1,028,570,576	961,232,322	2,020,199,255	-	-	-	-	-	-	2,020,199,255
Seven years later	5,372,163,294	425,199,404	1,028,627,742	965,753,042	-	-	-	-	-	-	-	965,753,042
Eight years later	5,369,007,521	425,220,681	1,028,627,515	-	-	-	-	-	-	-	-	1,028,627,515
Nine years later	5,355,511,889	425,193,468	-	-	-	-	-	-	-	-	-	425,193,468
Ten years later	5,354,985,416	-	-	-	-	-	-	-	-	-	-	5,354,985,416
Current estimate of cumulative claims	5,354,985,416	425,193,468	1,028,627,515	965,753,042	2,020,199,255	2,123,387,258	1,142,256,537	1,429,131,852	2,373,270,997	4,076,327,995	2,286,209,308	23,225,342,643
Cumulative payments to date	(5,329,307,414)	(425,193,468)	(1,028,619,728)	(965,444,782)	(2,015,942,736)	(2,122,334,581)	(1,102,975,817)	(1,389,285,663)	(2,256,713,268)	(3,320,937,336)	(671,734,770)	(20,628,489,563)
Total gross insurance liabilities included in the statement of financial position	P25,678,002	P-	P7,787	P308,260	P4,256,519	P1,052,677	P39,280,720	P39,846,189	P116,557,729	P755,390,659	P1,614,474,538	P2,596,853,080

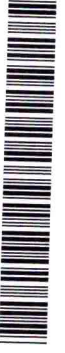
Accident Year	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:												
At the end of accident year	P6,973,034,633	P455,381,798	P425,879,198	P593,124,559	P857,102,734	P740,577,740	P794,720,561	P942,741,897	P1,076,670,806	P1,516,585,974	P1,389,380,613	P1,389,380,613
One year later	2,852,183,083	510,266,101	444,979,107	648,594,005	905,759,169	803,801,205	868,615,343	1,111,305,378	826,645,841	1,577,833,019	-	1,577,833,019
Two years later	2,824,956,027	500,926,019	441,880,364	632,788,511	862,053,239	797,001,416	861,919,892	1,122,402,975	833,297,968	-	-	833,297,968
Three years later	2,819,880,869	500,845,717	440,212,273	635,303,605	880,301,549	795,920,071	851,937,907	1,123,877,598	-	-	-	1,123,877,598
Four years later	2,825,578,762	500,570,163	433,074,793	637,014,103	874,058,551	795,241,303	851,921,907	-	-	-	-	851,921,907
Five years later	2,827,971,725	499,602,537	433,425,639	634,789,366	874,079,828	795,279,885	-	-	-	-	-	795,279,885
Six years later	2,836,793,829	498,091,070	433,088,612	634,892,164	874,380,528	-	-	-	-	-	-	874,380,528
Seven years later	2,835,477,331	497,142,394	433,145,778	634,892,164	-	-	-	-	-	-	-	634,892,164
Eight years later	2,835,717,022	497,163,671	433,145,778	-	-	-	-	-	-	-	-	433,145,778
Nine years later	2,825,895,330	497,163,671	-	-	-	-	-	-	-	-	-	497,163,671
Ten years later	2,826,171,846	-	-	-	-	-	-	-	-	-	-	2,826,171,846
Current estimate of cumulative claims	2,826,171,846	497,163,671	433,145,778	634,892,164	874,380,528	795,279,885	851,921,907	1,123,877,598	833,297,968	1,577,833,019	1,389,380,613	11,837,344,977
Cumulative payments to date	(2,820,450,662)	(497,163,671)	(433,137,991)	(634,891,686)	(873,404,026)	(794,476,099)	(839,804,423)	(1,111,157,343)	(807,178,806)	(1,466,556,528)	(275,042,987)	(10,553,264,222)
Total net insurance liabilities included in the statement of financial position	P5,721,184	P-	P7,787	P478	P976,502	P803,786	P12,117,484	P12,720,255	P26,119,162	P111,276,491	P1,114,337,626	P1,284,080,755



2018 (As restated – Note 2)

Accident Year	2008 and prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs:												
At the end of accident year	P3,715,574,929	P2,257,878,954	P448,731,836	P1,019,968,706	P925,722,497	P2,028,516,617	P2,291,517,062	P1,064,534,155	P1,072,674,346	P1,830,487,601	P2,683,020,537	P2,683,020,537
One year later	3,797,630,161	1,778,443,598	445,692,289	1,110,920,652	1,140,893,162	2,132,963,083	2,305,310,938	1,162,326,099	1,397,491,163	1,982,967,879	–	1,982,967,879
Two years later	3,794,453,053	1,616,049,062	429,887,967	1,099,132,100	1,118,179,517	2,160,388,700	2,097,875,280	1,148,835,349	1,392,757,994	–	–	1,392,757,994
Three years later	3,756,217,764	1,619,691,807	429,515,482	1,095,623,582	962,574,524	2,040,162,012	2,086,915,609	1,135,286,584	–	–	–	1,135,286,584
Four years later	3,775,318,404	1,633,825,892	428,598,504	1,027,443,377	963,342,761	2,029,137,437	2,086,277,297	–	–	–	–	2,086,277,297
Five years later	3,741,978,058	1,633,381,716	427,544,062	1,028,684,643	961,122,827	2,028,196,454	–	–	–	–	–	2,028,196,454
Six years later	3,751,533,446	1,617,170,987	426,148,191	1,028,570,576	961,232,322	–	–	–	–	–	–	961,232,322
Seven years later	3,749,931,464	1,622,231,830	425,199,404	1,028,627,742	–	–	–	–	–	–	–	1,028,627,742
Eight years later	3,746,347,346	1,622,660,175	425,220,681	–	–	–	–	–	–	–	–	425,220,681
Nine years later	3,732,851,714	1,622,660,175	–	–	–	–	–	–	–	–	–	1,622,660,175
Ten years later	3,733,618,285	–	–	–	–	–	–	–	–	–	–	3,733,618,285
Current estimate of cumulative claims	3,733,618,285	1,622,660,175	425,220,681	1,028,627,742	961,232,322	2,028,196,454	2,086,277,297	1,135,286,584	1,392,757,994	1,982,967,879	2,683,020,537	19,079,865,950
Cumulative payments to date	(3,713,141,082)	(1,617,560,175)	(425,220,681)	(1,028,619,955)	(961,199,791)	(2,018,178,596)	(2,084,991,559)	(1,098,937,789)	(1,356,377,666)	(1,834,138,292)	(1,085,477,102)	(17,223,842,688)
Total gross insurance liabilities included in the statement of financial position	P20,477,203	P5,100,000	P–	P7,787	P32,531	P10,017,858	P1,285,738	P36,348,795	P36,380,328	P148,829,587	P1,507,543,435	P1,856,023,262

Accident Year	2008 and prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs:												
At the end of accident year	P2,404,593,632	P4,568,441,001	P455,381,798	P425,879,198	P593,124,559	P857,102,734	P740,577,740	P794,720,561	P942,741,897	P1,076,670,806	P1,885,742,334	P1,885,742,334
One year later	2,479,058,543	373,124,540	510,266,101	444,979,107	648,594,005	905,759,169	803,801,205	868,615,343	1,111,305,378	838,559,677	–	838,559,677
Two years later	2,469,916,420	355,039,607	500,926,019	441,880,364	632,788,511	862,053,239	797,001,416	861,919,892	1,124,222,680	–	–	1,124,222,680
Three years later	2,463,712,011	356,168,858	500,845,717	440,212,273	635,303,605	880,301,549	795,920,071	852,061,972	–	–	–	852,061,972
Four years later	2,469,726,234	355,852,528	500,570,163	433,074,793	637,014,103	874,058,551	795,344,207	–	–	–	–	795,344,207
Five years later	2,472,185,119	355,786,606	499,602,537	433,425,639	634,789,366	874,149,828	–	–	–	–	–	874,149,828
Six years later	2,481,177,807	355,616,022	498,091,070	433,088,612	634,892,164	–	–	–	–	–	–	634,892,164
Seven years later	2,479,903,992	355,573,339	497,142,394	433,145,778	–	–	–	–	–	–	–	433,145,778
Eight years later	2,479,942,117	355,774,905	497,163,671	–	–	–	–	–	–	–	–	497,163,671
Nine years later	2,470,120,425	355,774,905	–	–	–	–	–	–	–	–	–	355,774,905
Ten years later	2,470,396,940	–	–	–	–	–	–	–	–	–	–	2,470,396,940
Current estimate of cumulative claims	2,470,396,940	355,774,905	497,163,671	433,145,778	634,892,164	874,149,828	795,344,207	852,061,972	1,124,222,680	838,559,677	1,885,742,334	10,761,454,156
Cumulative payments to date	(2,464,674,557)	(355,774,905)	(497,163,671)	(433,137,991)	(634,866,715)	(873,169,441)	(794,417,940)	(837,563,888)	(1,110,868,562)	(773,809,912)	(1,068,801,414)	(9,844,248,996)
Total net insurance liabilities included in the statement of financial position	P5,722,383	P–	P–	P7,787	P25,449	P980,387	P926,267	P14,498,084	P13,354,118	P64,749,765	P816,940,920	P917,205,160



15. Insurance Payables

This account consists of:

	2019	2018
Due to reinsurers and ceding companies	₱1,164,470,398	₱1,237,036,897
Funds held for reinsurers	237,704,081	226,543,652
	₱1,402,174,479	₱1,463,580,549

The rollforward analysis of insurance balances payable follows:

	2019		
	Due to Reinsurers and Ceding Companies	Funds Held for Reinsurers	Total
January 1, 2019	₱1,237,036,897	₱226,543,652	₱1,463,580,549
Arising during the year	1,872,359,173	492,413,987	2,364,773,160
Utilized	(1,944,925,672)	(481,253,558)	(2,426,179,230)
December 31, 2019	₱1,164,470,398	₱237,704,081	₱1,402,174,479

	2018		
	Due to Reinsurers and Ceding Companies	Funds Held for Reinsurers	Total
January 1, 2018	₱902,210,821	₱176,920,906	₱1,079,131,727
Arising during the year	2,077,474,537	363,936,364	2,441,410,901
Utilized	(1,742,648,461)	(314,313,618)	(2,056,962,079)
December 31, 2018	₱1,237,036,897	₱226,543,652	₱1,463,580,549

Interest expense on funds held for reinsurers amounted to ₱1,250,462 and ₱1,035,978 in 2019 and 2018, respectively.

16. Accounts Payable and Accrued Expenses

This account consists of:

	2019	2018
Commissions payable	₱333,661,734	₱300,851,018
Accounts payable	313,731,140	145,009,645
Deferred output VAT	115,442,831	172,401,362
Accrued expenses	44,310,687	52,448,933
VAT payable	37,619,318	37,803,277
Premium deposit	25,770,639	75,997,414
Other taxes payable	1,076,677	6,720,918
Others	2,445,856	1,287,310
	₱874,058,882	₱792,519,877



Commission payable pertains to amounts payable to agents in the form of commission.

Accounts payable includes purchases and other obligations not yet paid by the Company. It also includes cost already incurred but not yet paid.

Deferred output VAT are VAT incurred by the Company in a sale of insurance policies but not yet collected.

Premium deposit are payments collected in advance by the Company. In some instances, the Company credits premium deposit when there are overpayments and/or unidentified payments.

VAT payable pertains to excess output VAT over the input VAT recorded by the Company.

17. Equity

Capital Stock Issued

The details of this account follow:

Issued shares

Class A (nonvoting), ₱10 par value:

Authorized and issued 28,000,000 shares
in 2019 and 2018

₱280,000,000

Class B (voting), ₱10 par value:

Authorized and issued 7,000,000 shares
in 2019 and 2018

70,000,000

₱350,000,000

Deposit for Future Stock Subscription

On December 10, 2019, the Board of Directors unanimously approved Management's recommendation to amend the Corporation's Articles of Incorporation to increase the Company's authorized capital stock from ₱360,000,000 to ₱700,000,000, or an increase of ₱340,000,000. After the amendment, the capital stock of the Company will be divided into 56,000,000 Class "A" stock and 14,000,000 Class "B" stock, with par value of 10.00 each. The shares of Class "A" stock and Class "B" stock shall be entitled, in all respects, to equal rights and privileges provided, however, that Class "A" shall have no voting rights except in those cases expressly provided by laws.

The said increase is in line with the mandate of the Insurance Commission to comply with the insurance companies net worth requirement of ₱550,000,000 in 2018 (see Note 25).

On the same date of the Board of Director's meeting, the Parent Company signified its intention to subscribe to the Company's additional capital. The rest of the stockholders waived their pre-emptive rights to the said increase in capital.

On December 18, 2019, the Company received the payment from the Parent Company for the 25% of the subscribed capital amounting to ₱23,000,000.

The Company submitted the application for increase in authorized capital stock to the IC on December 23, 2019. The IC endorsed to SEC the Company's proposal to increase its authorized capital stock through an endorsement letter signed by the Deputy Insurance Commissioner, dated



January 2, 2020. The increase in authorized capital stock is not yet approved by the SEC as of the date these financial statements were authorized for issue.

As of December 31, 2019, this is presented as "Deposit for future stock subscription" as part of liabilities in accordance with the requirements of SEC Financial Reporting Bulletin (FRB) No. 006. Under said SEC FRB, deposits made for subscription may be classified as equity only upon meeting of the following conditions:

- The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract.
- There is Board of Directors approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation).
- There is stockholders' approval of said proposed increase.
- The application for the approval of the proposed increase has been filed with SEC.

Retained Earnings

The Company had appropriated ₱12,505,115 of its retained earnings for future catastrophic losses.

18. Net Insurance Earned Premiums

Gross earned premiums and reinsurers' share in gross earned premiums on insurance contracts follow:

	2019	2018
Gross premiums on insurance contracts:		
Direct insurance	₱4,980,180,378	₱4,947,541,599
Assumed reinsurance	129,168,152	356,917,957
Total gross premiums on insurance contracts (Note 14)	5,109,348,530	5,304,459,556
Gross change in provision for unearned premiums	226,908,496	(221,490,737)
Total gross earned premiums on insurance contracts (Note 14)	5,336,257,026	5,082,968,819
Reinsurers' share of insurance contracts premiums:		
Direct insurance	2,063,539,832	2,023,643,591
Assumed reinsurance	109,064,731	319,167,104
Total reinsurers' share of insurance contracts premiums (Note 14)	2,172,604,563	2,342,810,695
Reinsurers' share of gross change in provision for unearned premiums	61,340,541	(57,347,213)
Total reinsurers' share of gross earned premiums on insurance contracts (Note 14)	2,233,945,104	2,285,463,482
Net insurance earned premiums	₱3,102,311,922	₱2,797,505,337



19. Investment Income

This account consists of:

	2019	2018
Interest income on:		
Financial assets at FVOCI and amortized cost (Note 6)	₱79,355,708	₱71,330,955
Cash and cash equivalents and short-term investments (Note 4)	10,335,177	7,883,856
Dividend income (Note 6)	6,612,905	7,800,708
	₱96,303,790	₱87,015,519

20. Net Insurance Benefits and Claims

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

	2019	2018
Insurance contracts benefits and claims paid:		
Direct insurance	₱2,178,944,766	₱2,041,333,148
Assumed reinsurance	22,127,750	232,313,548
Total insurance contract benefits and claims paid (Note 14)	₱2,201,072,516	₱2,273,646,696

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

	2019	2018
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	₱307,233,662	₱353,658,610
Assumed reinsurance	7,434,282	219,969,781
Total reinsurers' share of insurance contract benefits and claims paid (Note 14)	₱314,667,944	₱573,628,391

Gross change in insurance contract liabilities:

	2019	2018 (As restated – Note 2)
Change in insurance contract liabilities:		
Direct insurance	₱397,258,397	₱398,740,039
Assumed reinsurance	136,173,436	(319,167,104)
Change in provision for IBNR (Note 14)	207,397,985	462,406,973
Total gross change in insurance contract liabilities (Note 14)	₱740,829,818	₱541,979,908



The details of provisions for (reversals of) expected credit losses are as follows:

	2019	2018
Insurance receivables	(P11,799,340)	P11,312,306
Financial assets at amortized cost	1,810,746	339,806
Financial assets at FVOCI	909,117	58,072
Loans and receivables	90,344	26,556
Cash and cash equivalent	–	4,174
	(P8,989,133)	P11,740,914

22. Personnel Expenses

This account consists of:

	2019	2018
Salaries and wages	P222,412,882	P215,121,050
Service fee	27,098,557	29,736,056
Net benefit expense (Note 23)	13,064,924	12,341,802
SSS, Pag-ibig fund and other contributions	10,420,033	8,569,049
Employee welfare costs	1,551,846	2,610,758
Others	16,715,837	20,583,518
	P291,264,079	P288,962,233

Service fee pertains to fees paid for general services outsourced from manpower agencies.

23. Pension Benefits

Pension plan

The Company has a defined benefit pension plan, covering substantially all of its employees, which requires contribution to be made to administered funds. The plan is administered by a local bank as trustee.

The following tables summarize the components of net benefit expense recognized in the statements of income and the funded status and amounts recognized in the statements of financial position for the plan:

	2019		
	Present Value of DBO	Fair Value of Plan Assets	Net Retirement Liability
Balance at beginning of year	P123,873,502	(P115,926,561)	P7,946,941
Net Benefit Cost in Statement of Income			
Current service cost	13,273,859	–	13,273,859
Net interest cost	7,790,868	(7,999,803)	(208,935)
Sub-total	21,064,727	(7,999,803)	13,064,924

(Forward)



	2019		
	Present Value of DBO	Fair Value of Plan Assets	Net Retirement Liability
Remeasurement in OCI			
Return on plan asset (excluding amount included in net interest)	₱—	(₱2,364,121)	(₱2,364,121)
Actuarial changes arising from			
Experience adjustments	753,128	—	753,128
Financial assumptions	16,692,990	—	16,692,990
Demographic assumptions	(832,083)	—	(832,083)
Sub-total	16,614,035	(2,364,121)	14,249,914
Benefit paid	(38,848,886)	38,799,769	(49,117)
Actual contributions	—	(7,946,941)	(7,946,941)
Balance at end of year	₱122,703,378	(₱95,437,657)	₱27,265,721

	2018		
	Present Value of DBO	Fair Value of Plan Assets	Net Retirement Liability
Balance at beginning of year	₱122,457,626	(₱139,203,177)	(₱16,745,551)
Net Benefit Cost in Statement of Income			
Current service cost	13,302,996	—	13,302,996
Net interest cost	6,028,398	(6,989,592)	(961,194)
Sub-total	19,331,394	(6,989,592)	12,341,802
Remeasurement in OCI			
Return on plan asset (excluding amount included in net interest)	—	22,347,796	22,347,796
Actuarial changes arising from			
Experience adjustments	(1,528,983)	—	(1,528,983)
Financial assumptions	(8,344,871)	—	(8,344,871)
Demographic assumptions	(123,252)	—	(123,252)
Sub-total	(9,997,106)	22,347,796	12,350,690
Benefit paid	(7,918,412)	7,918,412	—
Balance at end of year	₱123,873,502	(₱115,926,561)	₱7,946,941

The principal assumptions used in determining pension obligation for the Company's plan are shown below:

	2019	2018
Discount rate	4.88%	7.34%
Rate of salary increase	5.50%	6.00%

The Company's retirement fund is included in a multi-employer retirement fund registered in the name of Zuellig Group of Companies (the Group) and administered by a local bank as trustee. As of December 31, 2019 and 2018, the FV of the Company's equity in the fund amounted to ₱95,437,657 and ₱115,926,561, respectively; representing 79.40%% and 90.52% respectively, of the market value of the entire plan assets under trust.



The following is the distribution of the Group's plan assets stated at fair value:

	2019	2018
Cash in bank	₱2,763,820	₱8,833,034
Investments		
Bonds and government securities	55,630,178	76,779,985
Marketable equity securities	28,068,838	29,219,954
Common trust fund	690,952	396,863
Other securities and debt instruments	7,857,551	—
Other receivables	544,110	841,151
Liabilities	(117,792)	(144,426)
Total plan assets	₱95,437,657	₱115,926,561

The Company expect to contribute ₱19,128,257 to its retirement plan in 2020.

Sensitivities

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

	2019		2018	
	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
Discount rate	+1.00%	(₱9,252,614)	+1.00%	(₱6,877,638)
	-1.00%	10,729,616	-1.00%	7,890,610
Salary increase rate	+1.00%	11,129,545	+1.00%	8,658,273
	-1.00%	(9,779,265)	-1.00%	(7,676,177)

The average duration of the defined benefit obligation as of December 31, 2019 and 2018 is 16.92 years and 17.76 years, respectively.

Maturity profile of the undiscounted benefit payments are as follows:

	Expected benefit payments		
	Normal Retirement	Other than Normal Retirement	Total
Less than one year	₱3,559,338	₱6,201,452	₱9,760,790
More than one year to five years	28,221,028	28,699,988	56,921,016
More than five years to 10 years	44,228,407	39,552,231	83,780,638
More than 10 years to 15 years	43,026,140	39,084,128	82,110,268
More than 15 years to 20 years	50,419,368	34,586,653	85,006,021
More than 20 years	161,364,482	53,561,324	214,925,806



24. Income Tax

The provision for income tax consists of:

	2019	2018
Final	₱18,879,398	₱17,095,345
Current	8,648,624	5,485,995
Deferred	3,114,011	(16,721,876)
	₱30,642,033	₱5,859,464

Net deferred tax assets consist of the tax effects of the following:

	2019	2018
Deferred tax assets through profit or loss:		
Provision for IBNR losses - net	₱22,808,336	₱22,808,336
Pension obligation	7,248,780	6,943,316
Allowance for expected credit losses	9,679,341	7,386,048
MCIT	—	5,485,995
	39,736,457	42,623,695
Deferred tax liability through profit or loss:		
Foreign exchange gain	226,773	—
	39,509,684	42,623,695
Deferred tax assets through OCI:		
Remeasurement losses on defined benefit obligation	8,184,517	3,909,543
	₱47,694,201	₱46,533,238

The table below shows the temporary differences for which no deferred tax assets have been recognized as the Company is not certain whether sufficient future taxable profit will be available against which the benefit from these can be utilized.

	2019	2018
Provision for IBNR losses – net	₱461,335,613	₱332,372,275
NOLCO	128,073,857	168,791,565
Allowance for expected credit losses	52,000,000	52,000,000
Accrued expenses	50,586,415	52,448,933
MCIT	20,894,410	14,508,354
Right of use assets	277,779	—

The table below shows the movement of the Company's NOLCO during the year:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Date
2016	₱24,234,486	₱—	₱24,234,486	₱—	December 31, 2019
2017	37,130,770	16,483,222	—	20,647,548	December 31, 2020
2018	107,426,309	—	—	107,426,309	December 31, 2021
	₱168,791,565	₱16,483,222	₱24,234,486	₱128,073,857	



As of December 31, 2019, the unexpired excess of MCIT over normal tax, which can be claimed as a deduction against income tax due, are as follows:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Date
2016	₱7,748,563	₱—	₱7,748,563	₱—	December 31, 2019
2017	6,759,791	—	—	6,759,791	December 31, 2020
2018	5,485,995	—	—	5,485,995	December 31, 2021
2019	8,648,624	—	—	8,648,624	December 31, 2022
	₱28,642,973	₱—	₱7,748,563	₱20,894,410	

A reconciliation of the statutory income tax rate to effective income tax rate follows:

	2019	2018 (As restated – Note 2)
Statutory income tax rate	30.00%	30.00%
Tax effects of:		
Gain on sale on financial assets at FVOCI	26.11	4.27
Interest income already subjected to final tax	11.21	8.06
Unrecognized deferred tax assets	(45.82)	(27.81)
Dividend income	1.24	2.83
Nondeductible expenses	(38.61)	(18.61)
Effective income tax rate	(15.87%)	(1.26%)

25. Management of Capital, Insurance and Financial Risks

Governance Framework

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

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

Capital Management Framework

The primary objectives of the Company's capital management framework are to provide shareholders with a satisfactory return on their investments, financial security to policyholders, prompt payment of obligations and compliance with the regulatory requirements of the IC.

The IC capital requirements are Fixed Capitalization Requirements and Risk-Based Capital (RBC).

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 and the amount computed under the RBC Model.

The premiums received by the Company from policyholders are properly invested not only to provide for policy obligations but also to serve as capital or surplus to provide margin of safety which will attract insurance buyers.



The funds invested shall produce an investment income that will be needed to pay stockholders a fair return. While part of this income is due to favorable loss experience and sound cost management, a major portion of additional profits must be earned by managing the investment portfolio to produce a higher return on investment. While there may be a wide range of investment opportunities, the investment portfolio must always reflect the safety of the funds.

Since these funds are held in fiduciary capacity, the Code contains investment provisions that the Company should observe to protect the interest of the policyholders and of the stockholders.

The three (3) general classifications of investment requirements are:

1. Capital Investments - The Company must invest at least 25% of its minimum paid-up capital in bonds or other evidences of debt of the Government of the Philippines or its political subdivisions or in government-owned or controlled corporations and entities, including the Bangko Sentral ng Pilipinas.

Furthermore, investments shall at all times be maintained free from any lien or encumbrance and shall be deposited and held by the Commissioner of the IC for the benefit and security of the policyholders.

2. Reserve Investment - The Company must invest 100% of the Reserve for unearned premiums and Reserve funds withheld for authorized reinsurer in common or preferred stocks and government or private bonds, real estate and real estate loans, collateral loans, adequately secured obligations and other securities as may be approved by the Commissioner.
3. Surplus Investment - After complying with the capital and reserve investment requirements, the Company may invest any portion of its funds, representing earned surplus in stocks, bonds, real estate, equities of other financial institutions, engaged in the buying and selling of short term debt instruments, securities issued by registered enterprises under R.A. 5186, otherwise known as the Investment Incentives Act.

To meet its capital management objectives, the Company formed an Investment Management Committee primarily tasked to establish investment strategies consistent with the management objectives and the IC requirements. The Committee had likewise set up limits and control procedures and adequate contingency plans for the Company to withstand both temporary and long-term disruption in its ability to fund activities in a timely manner at a reasonable cost.

No changes were made to its capital base, objectives, policies and processes in the current year.

Fixed Capitalization Requirements

Department of Finance Order (DO) No. 27-06 provides for the capitalization requirements for life, nonlife and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On August 5, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the "Amended Insurance Code" which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022.



The IC issued Circular Letter 2018-45 dated September 5, 2018 which provided the guidelines on the minimum capitalization and net worth requirements for composite and insurance companies. On January 13, 2015, the IC issued Circular Letter No. 2015-02-A clarifying the minimum capitalization and net worth requirements of new and existing insurance companies in the Philippines. All domestic life and nonlife insurance companies duly licensed by the IC must have a net worth of at least ₱250.00 million by December 31, 2013.

The minimum net worth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

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

As of December 31, 2019, the Company's statutory net worth amounted to negative ₱133,056,555 and as of December 31, 2018, the Company's statutory net worth amounted to ₱462,481,202. The final amount of the net worth can be determined only after the accounts of the Company have been examined by the IC.

To address the statutory net worth deficiency in 2018, the Company increased its authorized capital stock in 2019 (see Note 17).

The IC granted an extension for the Company to complete the required capital infusion to comply with the minimum net worth and minimum capital investment requirements as of December 31, 2019. Details of such are disclosed in Note 30.

Risk-based Capital Requirements

In 2006, the IC issued Memorandum Circular (IMC) No. 7-2006 adopting a risk-based capital framework to establish the required amounts of capital to be maintained by nonlife insurance companies in relation to their investment and insurance risks. The RBC ratio of a company shall be calculated as Net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the Insurance Commissioner.

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

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



The following table shows how the RBC ratio as of December 31, 2019 and 2018 was determined by the Company:

	2019	2018
TAC	(P92,360,190)	P716,286,444
RBC requirement	694,790,884	471,241,082
RBC Ratio	(13%)	152%

The final 2019 RBC ratio can be determined only after the accounts of the Company have been examined by the IC. The 2018 RBC ratio was determined final during the examination made by the IC.

The Company's 2019 RBC ratio is less than 50%, which exposes the Company to authorized and mandatory control of the IC. As stated in IC Circular Letter No, 2016-2018, the IC is authorized to place the Company under the regulatory control in the best interest of the policy holders and creditors and of the general public. In relation to this, the Company wrote a letter to IC dated March 10, 2020 reassuring the IC of the Company's intent to comply with the minimum net worth and minimum capital investment requirements to improve its RBC. As an evidence of their intention to comply, the Company's shareholders reconfirmed that they are prepared to infuse additional capital during the year.

Insurance Risk

The risk under insurance contracts is the possibility of occurrence of insured event and uncertainty of the amount and timing of resulting claims. The principal risk the Company faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

- Occurrence risk - the possibility that the number of insured events will differ from those expected.
- Severity risk - the possibility that the cost of the events will differ from those expected.
- Development risk - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

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

The business of the Company comprises short-term nonlife insurance contracts. For general insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

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

The Company has an objective to control and minimize insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

- The use and maintenance of management information systems that provide up-to-date, accurate and reliable data on risk exposure at any point in time;
- Guidelines are issued for concluding insurance contracts and assuming insurance risks;



- Pro-active claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims;
- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security; and
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Reinsurance

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota-share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

Even though the Company may have 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 is unable to meet its obligations assumed under such reinsurance agreements.

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

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

	2019			2018 (As restated – Note 2)		
	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities
Fire	₱1,302,997,996	₱1,021,059,305	₱281,938,691	₱829,574,807	₱682,608,853	₱146,965,954
Motor car	945,227,150	45,814,532	899,412,618	708,953,221	37,759,558	671,193,662
Marine	129,737,737	110,223,735	19,514,002	76,343,104	53,206,227	23,136,877
Casualty	108,081,150	82,033,627	26,047,523	134,400,028	101,163,473	33,236,555
Engineering	71,957,439	42,653,225	29,304,214	55,481,297	43,284,293	12,197,004
Accident	19,008,119	2,145,777	16,862,342	20,418,017	1,706,564	18,711,453
Bonds	19,221,892	8,842,124	10,379,768	30,618,937	19,089,133	11,529,804
Medical	621,597	–	621,597	233,851	–	233,851
	₱2,596,853,080	₱1,312,772,325	₱1,284,080,755	₱1,856,023,262	₱938,818,102	₱917,205,160

Financial Instruments

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 accrued expenses, their carrying values reasonably approximate fair values at year-end.

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

The fair value of unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of cash flows and the lack of suitable method at arriving at are liable fair value are carried at cost.



Fair Value Measurement

The Company classifies its financial assets at fair value as follows:

	2019			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:				
Financial assets at FVTPL				
Listed equity securities	₱514,909,266	₱—	₱—	₱514,909,266
Golf club shares	—	28,100,000	—	28,100,000
Unit investment fund	—	48,275,918	—	48,275,918
Unlisted equity securities	—	—	20,000	20,000
	514,909,266	76,375,918	20,000	591,305,184
Financial assets at FVOCI				
Government debt securities				
Local currency	278,857,551	180,759,641	—	459,617,192
	793,766,817	257,135,559	20,000	1,050,922,376
Assets for which fair values are disclosed:				
Financial asset at amortized cost				
Government debt securities				
Local currency	879,642,231	—	—	879,642,231
Corporate bonds	98,164,277	—	—	98,164,277
Loans and receivables				
Accounts receivables	—	—	157,542,895	157,542,895
Employee receivables	—	—	7,664,725	7,664,725
Investment properties	1,176,414	—	—	1,176,414
	978,982,922	—	165,207,620	1,144,190,542
	₱1,772,749,739	₱257,135,559	₱165,227,620	₱2,195,112,918
	2018			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:				
Financial assets at FVTPL				
Listed equity securities	₱379,105,785	₱—	₱—	₱379,105,785
Golf club shares	—	25,650,000	—	25,650,000
Unit investment fund	—	14,650,000	—	14,650,000
Unlisted equity securities	—	—	20,000	20,000
	379,105,785	40,300,000	20,000	419,425,785
Financial assets at FVOCI				
Government debt securities				
Local currency	84,874,873	289,057,708	—	373,932,581
	463,980,658	329,357,708	20,000	793,358,366
Assets for which fair values are disclosed:				
Financial asset at amortized cost				
Government debt securities				
Local currency	864,164,862	—	—	864,164,862
Corporate bonds	62,866,862	—	—	62,866,862
Loans and receivables				
Accounts receivables	—	—	156,834,857	156,834,857
Employee receivables	—	—	5,627,439	5,627,439
Investment properties	1,176,414	—	—	1,176,414
	928,208,138	—	162,462,296	1,090,670,434
	₱1,392,188,796	₱329,357,708	₱162,482,296	₱1,884,028,800



Fair values of investment in securities classified as financial assets at FVTPL and FVOCI were determined using Level 1.

There have been no reclassifications from Level 1 to Level 2 category.

Financial Risk

The Company is exposed to financial risk through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk.

The Company's objectives in managing exposure to financial risks include providing financial security to policyholders, ensure prompt payment of its obligations and to provide owners with a satisfactory return on their investments.

To ensure that these objectives are met, the Company's policies and procedures require monitoring of financial risks by the Chief Financial Officer and regularly reviewed by the BOD.

Credit risk

Credit risk arises from the possibility of asset impairment occurring because counterparties cannot meet their obligations in transactions involving financial instruments.

Management has established a Credit Control Policy, which provides for terms of business and credit reference criteria. The policy requires that financial references are obtained for each agent and broker when credit is given. Credit terms are set for the counterparty, but these are withdrawn or restricted when these are breached. Any deviation from the policy requires justification subject to approval by the Management. The Policy is regularly reviewed by the Management and amended as necessary.

The Company's procedures provide for the monitoring of the counterparty's ability to meet its obligations through regular review of each account. Statements of accounts with covering letter are regularly sent to agents and brokers reminding them of their outstanding balances and to follow up payment. Reconciliation of accounts is also done on a regular basis.

For cash and cash equivalents and investments, the Company considers the safety of the investment, yield or income, liquidity, diversification, capital growth and appreciation.

The following are the acceptable instruments set up by the Investment Committee in order of priority:

1. Government Securities
2. Special Savings Accounts/ Bank Promissory Notes
3. Commercial papers with credit rating of 2 for short term and B for long term
4. Preferred and Common stocks (Blue Chip stocks only)

The table below shows the maximum exposure to credit risk for the components of its statement of financial position.

	2019	2018
Cash and cash equivalents* (Note 4)	₱1,028,845,547	₱808,568,244
Insurance receivables (Note 5)	1,530,202,117	1,904,046,343
Short-term investments (Note 4)	4,165,263	1,336,400

(Forward)



	2019	2018
Financial assets:		
Financial assets at FVTPL (Note 6)	₱591,305,184	₱419,425,785
Financial assets at FVOCI (Note 6)	459,617,192	373,932,581
Financial assets at amortized cost (Note 6)	947,037,516	983,029,484
Loans and receivables (Note 7)	165,207,619	162,462,296
Accrued income (Note 9)	12,172,811	13,158,064
	₱4,738,553,249	₱4,665,959,197

*Excluding cash on hand amounting to ₱164,300 and ₱171,800 as of December 31, 2019 and 2018, respectively.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	2019			
	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Satisfactory		
Cash and cash equivalents*	₱1,028,845,547	₱-	₱-	₱ 1,028,845,547
Short-term investments	4,165,263	-	-	4,165,263
Insurance receivables:				
Due from brokers and agents	-	1,003,191,057	118,701,192	1,121,892,249
Due from ceding companies and reinsurers	-	9,495,433	276,468,652	285,964,085
Reinsurance recoverable on paid losses	-	33,384,789	88,960,994	122,345,783
Loss reserve from ceding company	-	-	-	-
Funds held by ceding companies	-	-	-	-
Financial assets:				
Financial assets at FVTPL				
Listed equity securities	303,574,010	-	211,335,256	514,909,266
Club shares	27,000,000	-	1,100,000	28,100,000
Unit investment fund	48,275,918	-	-	48,275,918
Unlisted equity securities	20,000	-	-	20,000
Financial assets at FVOCI	459,617,192	-	-	459,617,192
Financial assets at amortized cost				
Government debt securities	850,854,404	-	-	850,854,404
Corporate bonds	96,183,112	-	-	96,183,112
Loans and receivables:				
Accounts receivable	-	157,542,895	-	157,542,895
Employee receivables	-	7,664,725	-	7,664,725
Accrued income	12,172,811	-	-	12,172,811
Total	₱2,830,708,257	₱1,211,278,899	₱696,566,094	₱4,738,553,250

*Excluding cash on hand amounting to ₱164,300 December 31, 2019.

	2018			
	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Satisfactory		
Cash and cash equivalents*	₱808,568,244	₱-	₱-	₱808,568,244
Short-term investments	1,336,400	-	-	1,336,400
Insurance receivables:				
Due from brokers and agents	-	1,342,364,968	89,934,117	1,432,299,085
Due from ceding companies and reinsurers	-	13,644,606	295,665,271	309,309,877
Reinsurance recoverable on paid losses	-	168,738	162,268,643	162,437,381
Loss reserve from ceding company	-	-	-	-
Financial assets:				
Financial assets at FVTPL				
Listed equity securities	91,088,365	-	288,017,420	379,105,785
Club shares	25,650,000	-	-	25,650,000
Unit investment fund	14,650,000	-	-	14,650,000
Unlisted equity securities	20,000	-	-	20,000
Financial assets at FVOCI	373,932,581	-	-	373,932,581

(Forward)



	2018			Total
	Neither Past Due nor Impaired		Past Due or Impaired	
	Investment Grade	Satisfactory		
Financial assets at amortized cost				
Government debt securities	P931,536,522	P—	P—	P931,536,522
Corporate bonds	51,492,962	—	—	51,492,962
Loans and receivables:				
Accounts receivable	—	156,834,857	—	156,834,857
Employee receivables	—	5,627,439	—	5,627,439
Accrued income	13,158,064	—	—	13,158,064
Total	P2,311,433,138	P1,518,640,608	P835,885,451	P4,665,959,197

*Excluding cash on hand amounting to P171,800 December 31, 2018.

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

Investment grade - This rating class is given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations. These financial assets have the smallest degree of financial risk.

Satisfactory - This rating class is given to borrowers and counterparties who possess above average capacity to meet its obligations.

Liquidity risk

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

Liquidity risk is a risk due to uncertain liquidity. An institution may suffer liquidity problem when its credit rating falls. The Company is also exposed to liquidity risk if markets on which it depends on are subject to loss of liquidity.

It is the Company's objective to develop a plan that will provide a well-balanced cash flow to ensure that enough cash is available to meet its obligations and to fund its operational requirements. A well-managed cash flow statement will yield positive cash balance in compliance to the requirement of the IC.

To meet these objectives, the Company prepares a Cash Flow Plan which entails forecasting and tabulating all significant cash inflows relating to premiums paid by policyholders, interest received from investments and others, and analyzing in detail the timing of expected payments relating to supplies, wages, other expenses, capital expenditure, dividends, tax, and others. Excess funds resulting from positive cash flows are invested in short term placements and high yielding government securities.

The table below summarizes the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual amounts based on remaining contractual maturity, or for the insurance contract liabilities, based on the estimated timing of net cash outflows.

	2019					Total
	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	No term	
Cash and cash equivalents*	P1,028,845,547	P—	P—	P—	P—	P1,028,845,547
Short-term investments	4,165,263	—	—	—	—	4,165,263
Insurance receivables	1,500,950,040	—	—	—	—	1,500,950,040

(Forward)



	2019					Total
	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	No term	
Financial assets						
Financial assets at FVTPL	₱48,275,918	₱-	₱-	₱-	₱543,029,266	₱591,305,184
Financial assets at FVOCI	1,018,020	-	80,685,476	377,913,696	-	459,617,192
Financial assets at amortized cost	220,875,277	215,859,858	148,520,513	358,898,520	-	944,154,168
Loans and receivables	113,078,582	-	-	-	-	113,078,582
Accrued income	12,172,811	-	-	-	-	12,172,811
Total financial assets	₱2,929,381,458	₱215,859,858	₱229,205,989	₱736,812,216	₱543,029,266	₱4,654,288,787
Insurance contract liabilities	₱2,596,853,080	₱-	₱-	₱-	₱-	₱2,596,853,080
Insurance payables	1,402,174,479	-	-	-	-	1,402,174,479
Accounts payable and accrued expenses	874,058,882	-	-	-	-	874,058,882
Lease liability**	40,237,726	53,249,646	-	-	-	93,487,372
Total financial liabilities	₱4,913,324,167	₱53,249,646	₱-	₱-	₱-	₱4,966,573,813

*Excluding cash on hand amounting to ₱164,300 as of December 31, 2019.

**Includes future interest amounting to ₱7,870,142

	2018					Total
	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	No term	
Cash and cash equivalents*	₱808,568,244	₱-	₱-	₱-	₱-	₱808,568,244
Short-term investments	1,336,400	-	-	-	-	1,336,400
Insurance receivables	1,862,994,926	-	-	-	-	1,862,994,926
Financial assets						
Financial assets at FVTPL	14,650,000	-	-	-	404,775,785	419,425,785
Financial assets at FVOCI	88,272,981	51,431,482	-	234,228,118	-	373,932,581
Financial assets at amortized cost	80,276,364	295,690,876	249,129,092	356,860,550	-	981,956,882
Loans and receivables	110,423,602	-	-	-	-	110,423,602
Accrued income	13,158,064	-	-	-	-	13,158,064
Total financial assets	₱2,979,680,581	₱347,122,358	₱249,129,092	₱591,088,668	₱404,775,785	₱4,571,796,484
Insurance contract liabilities	₱1,856,023,262	₱-	₱-	₱-	₱-	₱1,856,023,262
Insurance payables	1,463,580,549	-	-	-	-	1,463,580,549
Accounts payable and accrued expenses	499,596,907	-	-	-	-	499,596,907
Total financial liabilities	₱3,819,200,718	₱-	₱-	₱-	₱-	₱3,819,200,718

*Excluding cash on hand amounting to ₱171,800 as of December 31, 2018.

Market risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Company manages market risk by evenly distributing capital among investment instruments.

The Company structures the levels of market risk it accepts through a sound market risk policy based on specific guidelines set by the Investment Committee. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation and portfolio limit structure.



Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

Foreign currency risk

The Company's principal transactions are carried out in Philippine peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements.

The Company's financial assets are denominated in the same currencies as its insurance liabilities which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

The following table summarizes the Company's exposure to foreign currency exchange risk as of December 31, 2019 and 2018:

	2019		2018	
	US\$	PHP	US\$	PHP
Assets				
Cash and cash equivalents	\$1,885,110	₱95,466,687	\$4,439,300	₱231,890,554
Insurance receivables	4,326,342	221,184,977	7,737,084	336,523,831
	\$6,211,452	₱316,651,664	\$12,176,384	₱568,414,185
Liabilities				
Other insurance payables	\$6,495,847	₱333,767,823	\$7,071,656	₱370,733,623

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).

		2019	2018
	Change in variables	Impact on profit before tax Increase (Decrease)	
USD	+₱2	(₱568,790)	₱10,209,456
USD	-₱1	284,395	(5,104,728)

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

Interest rate risk

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

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk. The Company's fixed rate investments in particular are exposed to fair value interest rate risk.

The Company's market risk policy requires it to manage interest rate risk by investing in fixed rate instruments.



The following table shows the information relating to the Company's financial instruments that are exposed to fair value interest rate risk presented by maturity profile.

	Interest Rates	Maturity				Total
		Within 1 year	1-3 years	3-5 years	Over 5 years	
Financial assets at FVOCI						
2019	3% -5%	₱221,893,297	₱215,859,858	₱229,205,989	₱739,695,564	₱1,406,654,708
2018	5% - 6.50%	168,549,346	347,122,359	249,129,091	592,161,269	1,356,962,065

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects adjustments on revaluing fixed rate financial assets at FVOCI).

	Change in variables	2019	2018
		Impact on equity Increase (Decrease)	
Peso	+100 basis points	(₱28,537,951)	(₱17,463,972)
	-50 basis points	15,304,375	9,404,729

Equity 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 investments in equity securities.

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 investment, diversification plan and limits on investments.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects changes in fair value of financial assets at FVTPL).

	Change in Variable	2019	Change in Variable	2018
		Impact on equity Increase (Decrease)		Impact on equity Increase (Decrease)
Market Index 1	+6%	₱30,718,337	+14.42%	₱61,423,014
	-6%	(30,718,337)	-14.42%	(61,423,014)

26. Related Party Transactions

Parties are considered to be 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. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Related parties include affiliates, which are entities that have common shareholders with the Parent Company.



The Company, in its regular conduct of business, has entered into transactions with related parties principally consisting of the following:

a. Compensation of key management personnel

Key management personnel of the Company include all management staff.

The summary of compensation of key management personnel is as follows:

	2019	2018
Salaries and wages	₱70,445,637	₱69,559,642
Other employee benefits	1,025,115	886,600

b. Transactions with related parties consist mainly of the following activities:

	2019		
Category	Volume/ Amount	Outstanding Balance	Nature, Terms and Conditions
<i>Companies under common control</i>			
Service fee			
FPG Management Services Pte., Ltd.	₱67,931,597	₱4,680,841	The fee is billed monthly, payable on the following month.
	2018		
Category	Volume/ Amount	Outstanding Balance	Nature, Terms and Conditions
<i>Companies under common control</i>			
Service fee			
FPG Management Services Pte., Ltd.	₱59,039,585	₱5,606,808	The fee is billed monthly, payable on the following month.
Premiums			
Zuellig Pharma Corp.	117,740,862	862,591	90-day
Bridgebury Realty Corp.	12,816,882	9,570,618	90-day
Interphil Laboratories Inc.	6,646,009	3,032,175	90-day
Metro Drug Inc.	2,017,893	2,606	90-day
Mercator Holdings and Mgt Corp.	1,970,859	9,314	90-day
Zuellig Family Foundation	408,610	94,487	90-day
Zuellig Pharma Asia Pacific	332,488	1,710	90-day
Mercator Securities Corporation	611	611	90-day
Lease			
Bridgebury Realty Corp.			
Rent expense	23,587,200	—	5-year operating lease Refundable at the end of the lease term
Security deposit	—	9,672,347	
Prepaid rent	—	8,195,291	Advance rent to be applied at the end of the lease term
Real Estate			
Mercator Holdings and Mgt Corp.	94,821	147,071,023	Due on demand



Receivable from Mercator is gross of allowance for expected credit losses amounting to ₱52,000,000 as of December 31, 2019 and 2018.

The Company is no longer affiliated to Zuellig entities after the group restructuring effective August 27, 2018 (Note 1).

Transactions with related parties are made at normal market prices. Outstanding balances at year-end are unsecured and settlement generally occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

27. Leases Commitments

Company as a Lessee

The Company entered into the following lease agreements:

- a. Five-year lease for an office space for its Cebu branch effective May 16, 2016 until May 15, 2021. The stipulated monthly rent of ₱99,651 shall have an escalation rate of 10.0% on the second year.
- b. Five-year lease for its main office premises effective October 15, 2017 until October 14, 2022 with stipulated monthly rent of ₱1,872,000 and parking lease with stipulated monthly rent of ₱174,000, shall have an escalation rate of 20% on the second year and 5% in succeeding year. Three-year storage lease effective December 17, 2018 to December 16, 2021 with stipulated monthly rent of ₱49,488.
- c. Three-year lease of an office space for its Davao branch effective July 1, 2017 to June 30, 2020. The stipulated monthly rent of ₱35,218 shall have an escalation rate of 5.0% annually.
- d. Five-year lease of an office space for its Angeles branch effective February 1, 2017 to January 31, 2022. The stipulated monthly rent of ₱68,446 shall have an escalation rate of 8.0% annually.
- e. Five-year lease of an office space for its Lipa branch effective January 1, 2016 to January 1, 2021. The stipulated monthly rent of ₱62,500 shall have an escalation rate of 5.0% annually.
- f. One-year lease of an office and parking space for its Binondo satellite office effective November 1, 2019 to October 31, 2020 with stipulated monthly rent of ₱38,562 and a parking lease of ₱2,894 monthly, shall have an escalation rate of 5% annually.
- g. Two-year lease of an office space for its Alabang branch effective November 24, 2019 to November 23, 2021 with stipulated monthly rent of ₱67,584.91, shall have an escalation rate of 6% on the second year and a parking lease of ₱6,691.12 monthly.
- h. Lease of an office space for its Quezon City branch as follows:

Unit	Period	Monthly Rent	Escalation rate
Unit 602	February 1, 2012 to January 31, 2020	₱73,205	5% starting on the third year
Unit 604	February 1, 2012 to January 31, 2020	18,222	5% starting on the third year

(Forward)



Unit	Period	Monthly Rent	Escalation rate
Unit 601-A	January 1, 2015 to December 31, 2020	₱55,341	5% starting on the third year
Unit 601-B	April 16, 2012 to April 15, 2020	29,882	5% starting on the third year
Unit 605	July 1, 2012 to June 30, 2020	14,053	5% starting on the third year
Unit 12-01	December 1, 2018- November 30, 2020	87,043	5% starting on the third year
Storage Area	July 1, 2012 to November 30, 2020	2,014	

- i. Five-year lease of an office space for its Dagupan branch effective January 1, 2018 to December 31, 2022 with a stipulated monthly rent of ₱53,248 shall have an escalation rate of 5.0% annually.
- j. Two-year lease of an office space for its Cagayan de Oro branch effective April 1, 2019 to March 31, 2021. The stipulated monthly rent of ₱27,000 shall have an annual escalation rate of 5.0% annually.
- k. Two-year lease of an office space for its Ortigas branch effective April 16, 2019 to April 15, 2021 with stipulated monthly rent of ₱108,788.51, shall have an escalation rate of 5% annually.
- l. Two-year lease of an office space for its Las Piñas satellite office effective January 1, 2017 to December 31, 2019 with stipulated monthly rent of ₱35,138. The lease was terminated in July 2019.
- m. One-year lease of an office space for its Iloilo satellite office effective March 1, 2019 to February 28, 2020 with stipulated monthly rent of ₱10,000.
- n. One-year lease of an office space for its Bacolod branch effective December 1, 2019 to November 30, 2020 with stipulated monthly rent of ₱33,00. No escalation rate.
- o. One-year lease of an office space for its Laguna satellite office effective January 1, 2019 to December 31, 2019 with stipulated monthly rent of ₱16,831.10.
- p. Three-year lease of an office space for its Commonwealth satellite office effective September 1, 2018 to August 31, 2021 with stipulated monthly rent of ₱41,022 and have an escalation rate of 5% annually.
- q. Three-year lease of an office space for FPAC Business Lounge effective December 16, 2018 to December 15, 2021. The stipulated monthly rent of ₱256,200 shall have an escalation rate of 8% annually. One-year parking lease with stipulated monthly rent of ₱1,000.
- r. Two-year lease of an office space for its Tarlac satellite office effective April 1, 2018 to March 31, 2020 with stipulated monthly rent of ₱14,000.
- s. Two-year lease of an office space for its General Santos satellite office effective May 1, 2019 to April 30, 2021 with stipulated monthly rent of ₱ 22,839.96 and 24,552.96 for the 1st and 2nd year, respectively.
- t. Two-year lease of an office space for its Cavite satellite office effective April 1, 2018 to March 31, 2020 with stipulated monthly rent of ₱21,000 and have an escalation rate of 5% annually.



- u. Two-year lease of an office space for its Baguio satellite office effective December 1, 2017 to November 30, 2019 with stipulated monthly rent of ₱30,000 and have an escalation rate of 10% annually. The lease was terminated in July 2019.
- v. Two-year lease of an office space for its Ortigas extension office effective April 1, 2019 to March 31, 2021 with stipulated monthly rent of ₱84,664.85 and shall have an escalation rate of 8% annually.
- w. One-year lease of an office space for its Nuvali satellite office effective February 1, 2018 to January 31, 2019 with stipulated monthly rent of ₱32,912. The lease was terminated in June 2019.
- x. Two-year lease of an office space for its Palawan satellite office effective November 1, 2019 to October 31, 2020 with stipulated monthly rent of ₱30,250 and have an escalation rate of 10% annually.
- y. Three-year lease of an office space for its Masinag satellite office effective July 1, 2018 to June 30, 2021 with stipulated monthly rent of ₱25,200 and shall have an escalation rate of 8% annually.

Some the agreements mentioned above have remaining lease term of 12 months or less from the initial adoption of the new accounting standard for leases. The Company applies the 'short-term lease' recognition exemptions for those leases at date of transition.

The rollforward analysis of right of use assets follows:

	2019
As at January 1, 2019 (Note 2)	₱127,580,776
Additions during the year	6,785,250
Accumulated depreciation	(40,600,875)
As at December 31, 2019	₱93,765,151

The rollforward analysis of lease liability follows:

	2019
As at January 1, 2019 (Note 2)	₱123,198,853
Additions during the year	6,241,947
Accretion of interest	7,892,681
Payments	(43,846,109)
As at December 31, 2019	₱93,487,372

Non-current portion of the lease liabilities is disclosed in the maturity analysis in Note 25.

The following are the amounts recognized in the statement of income:

	2019
Depreciation expense of right-of-use asset	₱40,600,875
Expense relating to short-term lease (included in 'Rental') (Note 21)	4,685,879
Interest expense on lease liability	7,892,681
Total	₱53,179,345



The Company had total cash outflow for leases of ₱48,531,988 in 2019 which includes ₱4,685,879 for payments related to short-term leases.

Prior to adoption of PFRS 16

Rent expense charged against operations amounted to ₱48,048,549 in 2018 (see Note 21).

Future minimum lease payables under the operating lease agreements follow:

	2018
Within one year	₱38,832,558
After one year but not more than five years	1,583,594,321
	<u>₱1,622,426,879</u>

28. Contingent Liabilities

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.

29. Notes to the Statements of Cash Flows

The table below summarizes the changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes as of December 31, 2019.

	January 1, 2019 (Note 2)	Additions	Settlements	Other Adjustments	December 31, 2019
Lease liabilities	₱123,198,853	₱6,241,947	(₱35,953,428)	₱—	<u>₱93,487,372</u>

30. Subsequent Events

The Company considers the following events as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019:

Compliance with the Minimum Net Worth Requirements

On February 11, 2020, the IC issued Advisory No. 2-A-2020 to require all life and nonlife insurance companies to comply with the minimum net worth and minimum capital investment requirements until February 28, 2020. Otherwise, a show cause order shall be served to direct any company failing to meet these requirements, to make good any such deficient by cash within 15 days from the receipt of the letter, and to order such company not to take any new risk of any kind or character unless and until it makes good any such deficiency pursuant to Section 200 of the Amended Insurance Code. The IC advisory further impose that in any event that such company still failed to comply with the minimum net worth and minimum capital investment requirements within the prescribed deadline, a cease and desist order shall be issued.



In relation to Advisory No. 2-A-2020, the Company received a letter from IC dated March 2, 2020. The Company wrote a letter to IC dated March 10, 2020 reassuring the IC of the Company's intent to comply with the minimum net worth and minimum capital investment requirements. As an evidence of their intention to comply, the Company's shareholders reconfirmed that they are prepared to infuse additional capital during the year.

On March 18, 2020, the Company wrote a letter to IC requesting for an extension to comply with the minimum net worth and minimum capital investment requirements until April 15, 2020.

On March 24, 2020, the IC issued Circular Letter No. 2020-21 stating that all show cause order related to Advisory No. 2-A-2020 shall be put on hold until further notice. This is in line with Presidential Proclamation No. 922, declaring a State of Public Health Emergency in throughout the Philippines due to Corona Virus Disease 2019 (COVID-19) which impede both the operations of IC and insurance companies by the implementation of travel restrictions and the temporary suspension of business activities.

On March 26, 2020, the Company received a letter from the IC granting the request for an extension to comply with the minimum net worth requirements until April 15, 2020.

On April 15, 2020, the Company wrote a letter to the IC requesting for further extension of the deadline to comply with the minimum net worth requirements due to the repercussions caused by the COVID-19 pandemic. The Company received a letter from the IC, dated April 16, 2020, granting the extension to comply with the minimum net worth requirements until June 15, 2020.

On June 8, 2020, the Company wrote a letter to the IC requesting for further extension of the deadline to comply with the minimum net worth requirements until August 15, 2020. As of to date, the Company is waiting for the approval of the Insurance Commission.

Enhanced Community Quarantine in Luzon

On March 13, 2020, the Office of the President of the Philippines issued a directive imposing a stringent social distancing measures in the National Capital Region (NCR) 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. The ECQ was further extended until May 15, 2020 then moved to modified ECQ until May 30, 2020 where some essential business were allowed to operate. On June 1, 2020, the NCR was put to General Community Quarantine (GCQ) where the government allowed the operations all businesses at 50% capacity.

These measures were implemented by the Philippine government in a move to contain the COVID-19 outbreak and have caused disruptions to businesses and economic activities. On March 17, 2020, the business continuity program was implemented to comply with the government advisories on stringent social distancing measures and ECQ. The Company has committed to provide continuous customer service and conduct business as usual to meet the needs of clients and partners through its work from home capability.

The outbreak may have an 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.



31. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by RR15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year:

Output VAT

The Company is a VAT-registered company with output VAT declaration of ₱600,250,062 for the year based on the amount reflected in the Premium Income account of ₱5,002,083,850. The Company has zero-rated sales amounting to ₱452,513,810.

Input VAT

The amount of VAT Input taxes claimed are broken down as follows:

At January 1, 2019	₱17,362,110
Current year's domestic purchases/payments for:	
Purchase of goods	4,135,185
Payment for services	258,047,861
	279,545,156
Total Input VAT claimed during the year	262,713,125
At December 31, 2019	₱16,832,031

Documentary Stamp Tax (DST)

The DST paid on the following transactions are:

Transaction	DST
Policies of insurance upon property	₱604,657,927
Accident and health	1,473,320
Compulsory third-party liability (CTPL)	4,140

Other Taxes and Licenses

Details of other taxes, local and national, including real estate taxes, license and permit fees follow:

Local:

License and permit fees	₱194,637
-------------------------	----------

National:

Fees paid to the Insurance Commission	1,234,778
Fringe benefit taxes	943,135
Tax on sale on sale and purchase of stocks	308,848
Licenses of agents	234,206
LTO car registration fees	182,979
BIR annual registration	11,000
DST on customized cheque/license of agents	1,800
Others	130,147
	3,046,893
	₱3,241,530



Other taxes paid are:

Local government tax	₱16,915,751
Fire service tax	14,074,857
Premium tax	3,223,696
	<u>₱34,214,304</u>

Withholding Taxes

The amount of withholding taxes paid/accrued in 2019 amounted to:

Expanded withholding taxes	₱140,009,749
Withholding taxes on compensation and benefits	21,350,993
Final withholding taxes	2,596,455
	<u>₱163,957,197</u>

Tax Contingencies

The Company is currently under preliminary tax audit for taxable years 2012 to 2017. The Company has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

