Prudential Guarantee and Assurance Inc.

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Prudential Guarantee and Assurance, Inc.

Report on the Audit of the Financial Statements

Qualified Opinion

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

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the financial statements present fairly, in all material respects, the financial position of Prudential Guarantee and Assurance, Inc. 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 Qualified Opinion

In 2019, the Company recognized the adjustment on the application of 24th method over the appropriate contract period of certain insurance contracts as a direct reduction in the December 31 and January 1, 2019 balances of retained earnings instead of through the 2019 statement of income and through the retrospective restatement of the 2018 financial statements (see Note 30.a). As such, the Company's net premiums earned and commission expense are overstated and commission income is understated for the year ended December 31, 2019, and net premiums earned, commission expense and commission income are overstated for the year ended December 31, 2018. Had management accounted for this adjustment through the 2019 statement of income and retrospective restatement of the comparative financial statements, 2019 net premiums earned, and income tax would have decreased by ₱1,004,217,848 and ₱188,137,714, respectively, 2019 commission expense and commission income would have increased by ₱12,655,416 and ₱37,030,385, respectively, 2019 net income would have decreased by ₱791,705,165, and stockholder's equity would have increased by ₱188,137,714, as of and for the year ended December 31, 2019, and 2018. Net premiums earned and commission income would have decreased by ₱173,963,054 and ₱12,397,065, respectively, 2018 commission expense would have increased by ₱40,613,984, and net income would have decreased by ₱226,974,103, for the year ended December 31, 2018. In addition, the statements of cash flows for the years ended December 31, 2019 would have been impacted by the movements in those accounts and 2018 balances would have been restated had the adjustments been retrospectively adjusted.

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 qualified opinion.

Other Matter

In our auditor's report dated April 29, 2019, we expressed an unqualified opinion on the financial statements of the Company as at and for the year ended December 31, 2018. However, as discussed in the Basis for Qualified Opinion section of our report, the Company did not account for the adjustment to the application of the 24th method over the appropriate contract period of certain insurance contracts through retrospective restatement of the comparative financial statements as required under PAS 8, *Accounting Policies, Changes in Estimates and Errors* (see Note 30.a). Accordingly, our opinion on the 2018 financial statements, as presented herein, has been updated to reflect a qualified opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 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 Prudential Guarantee and Assurance, 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.

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April 29, 2021

PRUDENTIAL GUARANTEE AND ASSURANCE, INC.
STATEMENTS OF FINANCIAL POSITION

	2019	December 31 2018 (As restated - Note 30)	January 1 2018 (As restated - Note 30)
ASSETS			
Cash and cash equivalents (Notes 4 and 28)	**₱3,862,205,091**	₱4,472,247,883	₱3,598,744,114
Short-term investments (Notes 5 and 28)	**429,719,123**	283,658,842	587,326,636
Insurance receivables - net (Notes 6 and 28)	**3,104,767,499**	2,972,437,958	2,267,953,655
Financial assets (Notes 7, 19, 28 and 29)			
Financial assets at fair value through profit or loss	**755,830,917**	672,844,430	474,341,864
Available-for-sale financial assets	**554,746,358**	577,011,677	548,318,436
Loans and receivables - net	**28,198,016**	31,243,150	18,893,961
Deferred acquisition costs (Note 8)	**1,081,980,363**	878,450,012	872,846,689
Reinsurance assets (Notes 9 and 13)	**6,269,052,200**	3,333,508,465	2,921,925,332
Investment properties (Notes 10 and 29)	**652,915,191**	593,607,630	509,247,546
Property and equipment - net (Notes 11 and 29)	**882,746,693**	833,682,915	698,897,347
Right-of-use assets (Note 27)	**102,763,006**	–	–
Intangible assets - net (Note 11)	**25,541,913**	18,127,032	15,483,545
Other assets (Note 12)	**525,384,782**	519,553,845	595,363,400
Net pension asset (Note 16)	**16,280,686**	–	–
	₱18,292,131,838	₱15,186,373,839	₱13,109,342,525
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 13 and 23)	**₱11,179,291,637**	₱7,647,192,798	₱6,171,120,605
Insurance payables (Notes 14, 19 and 20)	**3,733,870,626**	2,747,135,200	2,542,943,008
Accounts payable and accrued expenses (Note 15)	**1,518,476,494**	2,388,163,244	2,304,385,970
Lease liabilities (Note 27)	**107,036,944**	–	–
Deferred reinsurance commissions (Note 8)	**104,548,510**	74,486,745	106,434,018
Net pension obligation (Note 16)	–	73,566,300	130,164,767
Deferred income tax liabilities - net (Note 25)	**4,682,632**	99,053,367	118,110,958
Other liabilities (Note 17)	**940,354,404**	756,816,990	362,466,360
	₱17,588,261,247	₱13,786,414,644	11,735,625,686
Equity (Note 18)			
Capital stock - ₱100 par value			
Authorized - 15,000,000 shares			
Issued and outstanding - 6,000,000 shares	**600,000,000**	600,000,000	600,000,000
Contributed surplus	**23,691,470**	23,691,470	23,691,470
Contingency surplus	**139,066,267**	139,066,267	139,066,267
Revaluation reserve on:			
Available-for-sale financial assets (Note 7)	**36,921,368**	72,206,687	46,767,477
Property and equipment (Note 11)	**289,820,299**	257,218,642	210,049,305
Remeasurement loss on defined benefit plan (Note 16)	**(99,846,573)**	(71,335,561)	(92,774,726)
Retained earnings (deficit)	**(285,782,240)**	379,111,690	446,917,046
	703,870,591	1,399,959,195	1,373,716,839
	₱18,292,131,838	₱15,186,373,839	₱13,109,342,525

See Notes to the Financial Statements

PRUDENTIAL GUARANTEE AND ASSURANCE, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2019	2018 (As restated – Note 30)
Gross premiums earned	**₱10,300,720,421**	₱9,155,318,014
Reinsurers' share of gross premiums earned	**5,366,615,362**	4,461,792,802
Net premiums earned (Note 20)	**4,934,105,059**	4,693,525,212
Commission income (Note 8)	**187,674,997**	190,384,671
Foreign currency exchange gains (losses) - net	**(86,460,203)**	83,580,975
Investment and other income - net (Note 21)	**195,710,197**	202,604,750
Other income (Note 22)	**669,170,721**	276,667,928
Other income	**966,095,712**	753,238,324
Total income	**5,900,200,771**	5,446,763,536
Gross insurance contract benefits and claims paid	**3,854,683,283**	2,764,140,313
Reinsurers' share of insurance contract benefits and claims paid	**(1,890,956,503)**	(894,881,669)
Gross change in insurance contract benefits and claims liabilities	**2,085,920,086**	583,946,445
Reinsurers' share of change in insurance contract benefits and claims liabilities	**(1,732,334,168)**	(224,088,517)
Net insurance contract benefits and claims (Note 23)	**2,317,312,698**	2,229,116,572
Commission expense (Note 8)	**1,982,774,075**	1,654,234,225
Other underwriting expenses	**136,346,022**	140,784,434
General expenses (Note 24)	**900,753,129**	1,246,474,691
Interest expense (Notes 16, 21 and 27)	**129,442,430**	7,315,260
Other expenses	**3,149,315,656**	3,048,808,610
Total insurance contract benefits, claims and other expenses	**5,466,628,354**	5,227,925,182
INCOME BEFORE INCOME TAX	**433,572,417**	168,838,354
PROVISION FOR INCOME TAX (Note 25)	**119,420,137**	9,646,933
NET INCOME	**₱314,152,280**	₱159,191,421

See Notes to the Financial Statements

PRUDENTIAL GUARANTEE AND ASSURANCE, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018 (As restated – Note 30)
NET INCOME	**₱314,152,280**	₱159,191,421
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) that will be reclassified to profit or loss in subsequent periods:		
Net changes in the revaluation reserve on available-for-sale financial assets (Note 7)	**(35,285,319)**	25,439,210
Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gain (loss) on defined benefit plan, net of tax (Note 16)	**(28,511,012)**	21,439,165
Change in revaluation reserve on property and equipment, net of tax effect (Note 11)	**33,159,326**	47,153,465
	4,648,314	68,592,630
TOTAL COMPREHENSIVE INCOME	**₱283,515,275**	₱253,223,261

See Notes to the Financial Statements

PRUDENTIAL GUARANTEE AND ASSURANCE, INC.
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 19)	Contributed Surplus (Note 19)	Contingency Surplus (Note 19)	Revaluation Reserve on Available-for-sale Financial Assets (Note 7)	Revaluation Reserve on Property and Equipment (Note 11)	Remeasurement gain (loss) on Defined Benefit Plan (Note 17)	Retained Earnings (Deficit) (As restated – Note 30)	Total
As of January 1, 2019								
As previously reported	**₱600,000,000**	**₱23,691,470**	**₱139,066,267**	**₱72,206,687**	**₱257,218,642**	**(₱71,335,561)**	**₱927,899,245**	**₱1,948,746,750**
Restatement adjustments (Note 30)	–	–	–	–	–	–	**(548,787,555)**	**(548,787,555)**
As restated	**600,000,000**	**23,691,470**	**₱139,066,267**	**72,206,687**	**257,218,642**	**(71,335,561)**	**379,111,690**	**1,399,959,195**
Net income for the year	–	–	–	–	–	–	**314,152,280**	**314,152,280**
Other comprehensive income (loss) for the year	–	–	–	**(35,285,319)**	**33,159,326**	**(28,511,012)**	–	**(30,637,005)**
Total comprehensive income (loss) for the year				**(35,285,319)**	**33,159,326**	**(28,511,012)**	**314,152,280**	**283,515,275**
Transfer of revaluation surplus to retained earnings (Note 11)	–	–	–	–	**(557,669)**	–	**796,669**	**239,000**
Impact of the application of 24th method over the appropriate contract period of certain insurance contracts (Notes 8, 13 and 20)	–	–	–	–	–	–	**(979,842,879)**	**(979,842,879)**
As of December 31, 2019	**₱600,000,000**	**₱23,691,470**	**₱139,066,267**	**₱36,921,368**	**₱289,820,299**	**(₱99,846,573)**	**(₱285,782,240)**	**₱703,870,591**
As of January 1, 2018								
As previously reported	₱600,000,000	₱23,691,470	₱139,066,267	₱46,767,477	₱210,049,305	(₱92,774,726)	₱614,560,894	₱1,541,360,687
Restatement adjustments (Note 30)	–	–	–	–	–	–	(167,643,848)	(167,643,848)
As restated	600,000,000	23,691,470	139,066,267	46,767,477	210,049,305	(92,774,726)	446,917,046	1,373,716,839
Net income for the year	–	–	–	–	–	–	159,191,421	159,191,421
Other comprehensive income for the year	–	–	–	25,439,210	47,153,465	21,439,165	–	94,031,840
Total comprehensive income for the year	–	–	–	25,439,210	47,153,465	21,439,165	159,191,421	253,223,261
Transfer of revaluation surplus to retained earnings (Note 11)	–	–	–	–	15,872	–	(22,674)	(6,802)
Impact of the application of 24th method over the appropriate contract period of certain insurance contracts (Notes 8, 13 and 20)	–	–	–	–	–	–	(226,974,103)	(226,974,103)
As of December 31, 2018	₱600,000,000	₱23,691,470	₱139,066,267	₱72,206,687	₱257,218,642	(₱71,335,561)	₱379,111,690	₱1,399,959,195

See Notes to the Financial Statements

PRUDENTIAL GUARANTEE AND ASSURANCE, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018 (As restated – Note 30)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱433,572,417**	₱168,838,354
Adjustments for:		
Provision for (reversal of) impairment losses on:		
Other assets (Notes 12 and 24)	**55,033,834**	70,454,000
Property and equipment (Notes 11 and 24)	**4,559,004**	18,479,183
Employee receivables (Notes 7 and 24)	**1,992,604**	–
Insurance receivables (Notes 6 and 24)	**(74,053,276)**	(7,130,640)
Available-for-sale financial assets (Notes 7 and 21)	**–**	28,928,098
Interest expense (Notes 16, 21 and 27)	**129,442,430**	7,315,260
Depreciation and amortization (Notes 11, 24 and 27)	**122,192,139**	51,929,903
Foreign exchange losses (gains) - net	**86,460,203**	(83,580,975)
Pension benefit expense (Notes 16 and 24)	**17,137,193**	24,904,027
Fair value losses (gains) on financial assets at fair value through profit or loss (Notes 7 and 21)	**7,735,985**	(36,301,326)
Reversals of:		
Commission payable (Notes 15 and 22)	**(402,579,323)**	–
Deferred output VAT (Notes 15 and 22)	**(142,145,699)**	–
Client deposits (Notes 17 and 22)	**–**	(29,855,553)
Provision for (reversal of) probable losses (Notes 15 and 24)	**(349,867,144)**	51,241,748
Interest income (Note 21)	**(92,552,197)**	(77,558,919)
Fair value gain on revaluation of investment properties (Notes 10 and 21)	**(59,307,561)**	(83,742,251)
Dividend income (Note 21)	**(18,420,853)**	(10,288,740)
Gain on sale of:		
Available-for-sale financial assets (Notes 7 and 21)	**(8,186,542)**	(483,159)
Property and equipment (Notes 11 and 22)	**–**	(451,725)
Recovery of accounts previously written-off (Note 22)	**–**	(133,211,780)
Operating loss before working capital changes	**(288,986,786)**	(40,514,495)
Decrease (increase) in:		
Reinsurance assets	**(2,935,543,735)**	(411,583,133)
Deferred acquisition costs	**(203,530,351)**	(5,603,323)
Insurance receivables - net	**(137,854,833)**	(488,650,989)
Other assets	**(60,864,771)**	5,355,555
Loans and receivables	**(1,298,414)**	148,638,151
Increase (decrease) in:		
Insurance contract liabilities	**2,552,255,960**	1,249,098,090
Insurance payables	**986,735,426**	204,192,192
Other liabilities	**183,537,414**	394,350,630
Deferred reinsurance commissions	**30,061,765**	(31,947,273)
Accounts payable and accrued expenses	**(91,916,626)**	62,391,040
Net cash generated from operations	**32,595,049**	1,085,726,445

(Forward)

	Years Ended December 31	
	2019	2018 (As restated – Note 30)
Income taxes paid	**(₱215,544,006)**	(₱58,108,164)
Contribution to pension plan (Note 16)	**(153,062,500)**	(58,190,340)
Net cash flows provided by (used in) operating activities	**(336,011,457)**	969,427,941
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals and maturities of:		
Short-term investments (Note 5)	**617,748,661**	870,778,572
Financial assets at fair value through profit or loss (Note 7)	**567,000,000**	510,340,000
Available-for-sale financial assets (Note 7)	**42,265,167**	6,830,958
Property and equipment (Note 11)	**–**	941,769
Investment properties (Note 10)	**–**	122,380
Acquisitions of:		
Short-term investments (Note 5)	**(770,367,546)**	(711,059,092)
Financial assets at fair value through profit or loss (Note 7)	**(657,722,472)**	(672,541,240)
Property and equipment (Note 11)	**(76,905,267)**	(134,370,440)
Available-for-sale financial assets (Note 7)	**(47,098,625)**	(38,529,928)
Intangible assets (Note 11)	**(13,282,207)**	(6,595,652)
Investment properties (Note 10)	**–**	(740,213)
Interest received	**94,903,141**	68,609,974
Dividends received	**18,420,853**	10,288,740
Net cash flows used in investing activities	**(225,038,295)**	(95,924,172)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of principal portion of lease liabilities	**(41,720,956)**	–
Payment of interest portion of lease liabilities	**(7,272,084)**	–
Net cash flows used in financing activities	**(48,993,040)**	–
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(610,042,792)**	873,503,769
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**4,472,247,883**	3,598,744,114
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,862,205,091**	₱4,472,247,883

See accompanying Notes to Financial Statements.

1. Corporate Information

Prudential Guarantee and Assurance, Inc. (the Company) was incorporated in the Philippines to engage in the business and operation of all kinds of insurance on sea, land and air, of properties, goods and merchandise, transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance. It has a certificate of authority issued by the Insurance Commission (IC) to transact in non-life insurance business until December 31, 2021.

The Company was registered with the Philippine Securities and Exchange Commission (SEC) on February 20, 1950. On March 8, 1999, it was approved by at least a majority of the Board of Directors (BOD) and the stockholders owning and representing at least two-thirds of the outstanding capital stock, 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 SEC approved the Amended Articles of Incorporation on September 27, 1999.

The registered office address of the Company is Coyiuto House, 119 C. Palanca, Jr. Street, Legaspi Village, Makati City.

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) of the Company on April 29, 2021

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets, investment properties and certain property and equipment which have been measured at fair value. The financial statements are measured in Philippine Peso (₱), which is also Company's functional currency. All values are rounded off to the nearest peso values, unless otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2018 is presented in these financial statements due to the retrospective adjustments as disclosed in Note 30.

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to PFRS, which became effective on or after January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- PFRS 16, *Leases*

  PFRS 16 replaces PAS 17, *Leases* and IFRIC 4, *Determining whether an Arrangement contains a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessee to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17.

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessor will continue to classify leases as either operating or finance leases using similar principles as in PAS 17 and IFRIC 4 at the date of initial application.

  The Company adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4. The Company 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 of PFRS 16 as at January 1, 2019 is, as follows:

	Increase
Statement of financial position:	
Right-of-use assets (Note 27)	**₱82,362,753**
Lease liabilities (Note 27)	**82,362,753**

  The Company entered into commercial leases for its head office and branches, including parking spaces taken separately from the office leases. Before the adoption of PFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease.

  Leases previously accounted for as operating leases
  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, and recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases,. The right-of-use assets is based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized.

  Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

  The Company also applied the available practical expedients wherein it:
  - 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 twelve (12) months from 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

A reconciliation of the operating lease commitments as at December 31, 2018 to the lease liabilities recognized in the statement of financial position as at January 1, 2019 is shown below:

Operating lease commitments as at December 31, 2018	**₱219,153,065**
Less: Commitments relating to short term leases	**51,781,369**
Gross lease liabilities as at January 1, 2019	**167,371,696**
Weighted average incremental borrowing rate at January 1, 2019	**7.14%**
Lease liabilities recognized at January 1, 2019	**₱82,362,753**

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

  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

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

  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 that there are no uncertain tax positions present on all revenue and expense accounts considered for income tax purposes. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Company.

- 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

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- 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, 2023

- 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 main features of the new accounting model for insurance contracts are, as follows:

  - The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, re-measured every reporting period (the fulfilment cash flows).
  - A Contractual Service Margin ("CSM") that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the insurance contracts to be recognized in profit or loss over the service period (i.e., coverage period).
  - Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognized in profit or loss over the remaining contractual service period.
  - The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.
  - The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period.
  - Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognized directly on the balance sheet.
  - Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense.
  - Extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The standard is effective for annual periods beginning on or after 1 January 2023. Early application is permitted, provided the entity also applies PFRS 9 and PFRS 15 on or before the date it first applies PFRS 17. On May 18, 2020, the Insurance Commission issued circular 2020-62 which defers the implementation of PFRS 17 in the Philippines to 1 January 2025 or for an additional two (2) years from the date of global adoption. An entity shall apply PFRS 17 retrospective approach for estimating the CSM on the transition date. However, if full retrospective application for estimating the CSM, is impracticable, an entity is required to choose one of the following two alternatives:

- Modified retrospective approach

  Based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest possible outcome to retrospective application.

- Fair value approach

  The CSM is determined as the positive difference between the fair value determined in accordance with PFRS 13, *Fair Value Measurement* and the fulfilment cash flows (any negative difference would be recognized in retained earnings at the transition date).

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.
Assessment is currently being made by the Company to study the implication and to evaluate the potential impact of adopting this standard on the required effective date.

Accounting Standard Effective but not yet Adopted

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted.

  Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets but will have no impact on the classification and measurement of the Company's financial liabilities.

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard, before implementing the forthcoming insurance contracts standard. The amendments allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than in profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard becomes effective. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 from January 1, 2018 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2025.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  In 2019 and 2018, the Company performed an assessment and reached the conclusion that based on the restated balances as of the December 31, 2015, its activities are predominantly connected with insurance. As permitted by the amendments to PFRS 4, the Company opted to apply the temporary exemption from PFRS 9 and therefore continues to apply PAS 39, *Financial Instruments: Recognition and Measurement* to its financial assets and financial liabilities until it applies the new insurance contract standard.

  Fair Value Disclosures

  The table below presents an analysis of the fair value of classes of financial assets of the Company as of December 31, 2019, as well as the corresponding change in fair value for the year then ended. The financial assets are divided into two categories:

  - Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and
  - All financial assets other than those specified in SPPI above (i.e., those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis).

	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Financial assets at FVPL:				
Debt securities - government securities	**₱755,830,917**	**(₱7,735,985)**	**₱–**	**₱–**
AFS financial assets:				
Common shares	**–**	**–**	**466,619,248**	**(28,776,772)**
Preferred shares	**–**	**–**	**83,047,110**	**1,677,995**
Club shares	**–**	**–**	**5,080,000**	**–**
Insurance receivables:				
Due from agents and brokers	**2,425,592,717**	**–**	**–**	**–**
Reinsurance recoverable on paid losses	**586,126,380**	**–**	**–**	**–**
Due from ceding companies	**93,048,402**	**–**	**–**	**–**
Loans and receivables:				
Cash and cash equivalents	**3,862,205,091**	**–**	**–**	**–**
Short-term investments	**429,719,123**	**–**	**–**	**–**
Employee receivables	**10,942,141**	**–**	**–**	**–**
Interest receivables	**13,738,716**	**–**	**–**	**–**
Mortgage loans receivable	**828,571**	**–**	**–**	**–**
Other receivables	**2,688,588**	**–**	**–**	**–**
	₱8,180,720,646	**(₱7,735,985)**	**₱554,746,358**	**(₱27,098,777)**

Credit Risk Disclosures

The following table shows the carrying amounts of the SPPI assets in accordance with PAS 39 categories by credit risk rating grades reported to key management personnel. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown below is before any allowance for impairment losses.

	Total	High	Medium	Past due
Financial assets at FVPL:				
Debt securities - government securities	**₱755,830,917**	**₱755,830,917**	**₱–**	**₱–**
Insurance receivables:				
Due from agents and brokers	**2,458,953,232**	**1,028,279,552**	**293,329,960**	**1,137,343,720**
Reinsurance recoverable on paid losses	**622,863,727**	**463,291,154**	**2,049,550**	**157,523,023**
Due from ceding companies	**93,048,402**	**7,197,703**	**19,966,610**	**65,884,089**
Loans and receivables:				
Cash and cash equivalents*	**3,861,584,260**	**3,861,584,260**	**–**	**–**
Short-term investments	**429,719,123**	**429,719,123**	**–**	**–**
Employee receivables	**12,934,745**	**12,934,745**	**–**	**–**
Interest receivables	**13,738,716**	**13,738,716**	**–**	**–**
Mortgage loans receivable	**828,571**	**828,571**	**–**	**–**
Other receivables	**2,688,588**	**2,688,588**	**–**	**–**
	₱8,252,190,281	**₱6,576,093,329**	**₱315,346,120**	**₱1,360,750,832**

**excluding cash on hand*

Product Classification

Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted 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 policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts

Investment Contracts mainly transfer financial risk but can also transfer insignificant 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 inceptions if the insurance risk becomes significant.

Foreign Currency Transactions and Translations

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. Nonmonetary 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 recognized in the statement of income, except where it relates to equity securities where gains or losses are recognized in other comprehensive income.

Fair Value Measurement

The Company measures financial instruments, such as financial assets at FVPL and AFS financial assets, at fair value at each reporting date.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of 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 of input that is significant to the fair value measurement is directly or indirectly observable
- *Level 3* - Valuation techniques for which the lowest level of 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 reassessing categorization (based on the lowest level of input that is significant to the fair value measurement as a whole) and at the end of each reporting date.

For fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and are subject to an insignificant risk of changes in value.

Short-term Investments
Short term investments are short-term placements with maturities of more than three (3) months but less than one (1) year from the date of acquisition. These earn interest 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. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Insurance receivables are derecognized applying the derecognition criteria for financial assets.

Financial Instruments
Date of recognition
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 on the trade date.

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2019 and 2018, the Company's financial instruments include financial assets at FVPL, AFS financial assets, loans and receivables and other financial liabilities.

"Day 1" difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where an unobservable data is used, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Financial assets or financial liabilities at FVPL
This category consists of financial assets or financial liabilities that are held for trading or those designated by management as at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are also classified under this category.

Financial assets or financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or (b) the assets or liabilities are part of a group of financial assets or liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset or financial liabilities contains an embedded derivative that would need to be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in the statement of income.

The Company's financial assets at FVPL as of December 31, 2019 and 2018 consist of Philippine Peso-denominated treasury bills and notes which are held for trading purposes. There are no financial liabilities at FVPL as of December 31, 2019 and 2018.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. For AFS debt securities, the effective yield component of it, as well as the impact of restatement on foreign currency-denominated debt securities, is reported in the statement of income. Interest earned on holding AFS financial assets are recorded as interest income in the statement of income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of income when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Revaluation reserve on available-for-sale financial assets" in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized as "Impairment losses on AFS financial assets" lodged under "Investment and other income - net". When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Where the Company holds more than one investment in the same security, the cost used is determined using the weighted average method.

When the fair value of an unquoted AFS equity securities cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value, these investments are carried at cost, less any allowance for impairment losses.

The Company's AFS financial assets as of December 31, 2019 and 2018 consist primarily of listed shares (common and preferred) in the Philippine Stock Exchange and country and club shares which were designated as AFS financial assets upon initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or AFS financial assets.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is recorded as interest income in the statement of income. The loss arising from impairment of such loans and receivables are recognized in the statement of income. Any effects of restatement of foreign currency-denominated assets are recognized in the statement of income.

As of December 31, 2019 and 2018, the Company's loans and receivables consist of cash and cash equivalents, insurance receivables and employee receivables, interest receivables, mortgage loans receivable and other receivables.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity.

Where the company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

As of December 31, 2019 and 2018, the Company has no HTM investments.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

As of December 31, 2019 and 2018, the Company's other financial liabilities consists of insurance payables, loans payable, accounts payable and accrued expenses and other liabilities that meet the above definition.

Impairment of Financial Assets
The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as past-due status and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of income. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Write-off
The Company writes-off its financial assets (except AFS securities) when it has been established that all efforts to collect and/or recover the loss has been exhausted. This may include the other party being insolvent, deceased or the obligation being unenforceable.

AFS financial assets
In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement - is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

AFS financial assets carried at cost
If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

<u>Offsetting Financial Instruments</u>
Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Company assesses that it has a currently enforceable right to 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.

De-recognition of Financial Assets and Liabilities

Financial assets

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

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

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

Financial liabilities

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

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances recoverable from unpaid losses incurred by the Company with coverage from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Reinsurance recoverable on paid losses are included as part of Insurance receivables - net.

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

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. 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 expire, are extinguished or when the contract is transferred to another party.

Deferred Acquisition Costs (DAC)
Commission and other acquisition costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged to expense in proportion to the premium revenue recognized. Subsequent to initial recognition, these costs are amortized using the 24th method for policies with a term of exactly one (1) year, otherwise, 365th method is used. Amortization is charged against the statement of income. The unamortized acquisition costs are shown in the assets section of the statement of financial position as "Deferred acquisition costs". All other acquisition costs are recognized as incurred.

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 to the statement of income. The DAC is also considered in the liability adequacy test for each end of the reporting date.

Investment Property
Investment property is measured initially at cost, including transaction costs. Investment property pertains to property that is held to earn rent income or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. Subsequent to initial recognition, investment properties are stated at fair values determined by an independent firm of appraisers. Gains or losses arising from changes in the fair values of investment properties are included in the Company statement of comprehensive income for the period in which they arise, including the corresponding tax effect.

Investment property being constructed is included under the investment property account until the time when the construction related activities necessary to prepare the investment property for the intended use are complete. Investment property being constructed is carried at cost when the fair value cannot be reliably determined.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation. Transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Investment properties are derecognized either when they have been disposed or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Company statement of income.

Property and Equipment
Property and equipment, except for land and buildings, are stated at cost, net of accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Land and buildings are measured at fair value less accumulated depreciation and impairment losses recognized after the date of the revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation surplus included in the statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in the statement of income, except to the extent that it offsets an existing surplus on the same asset recognized in the revaluation surplus.

Accumulated depreciation as of the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation is calculated using the straight-line method over the estimated useful life of the corresponding asset. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful life. The estimated useful lives of items of property and equipment are as follows:

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

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation are credited to or charged against the current operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and impairment in value are removed from the accounts and any gain or loss resulting from their disposals is credited to or charged against the current operations.

Computer Software

Cost associated with the acquisition or maintaining computer software programs are recognized as expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Company, which will generate economic benefits beyond one (1) year, are recognized as intangible assets.

Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are capitalized and added to the original cost of the software. Computer software development costs are recognized as assets are carried at cost less accumulated amortization. The costs are amortized using the straight-line method over their estimated useful lives of five (5) years.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that property and equipment, investment property and computer software may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Creditable Withholding Taxes (CWTs)

Creditable withholding taxes pertain to the taxes paid by the Company withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost and included as part of "Other assets" in the statement of financial position.

CWTs may either be offset against 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" in the statement of financial position.

At each end of the reporting period, an assessment for impairment is performed to assess the recoverability of the Company's CWTs.

Value-added Tax (VAT)
Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other assets" or "Accounts payable and accrued expenses" in the statement of financial position.

Insurance Contract Liabilities
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 short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method for policies with a term of exactly one (1) year, otherwise, 365th method is used. The change in the provision for unearned premiums is taken to the statement of income in the 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 losses are 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.

Net Pension Asset/Obligation
The net defined benefit obligation 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 the net defined benefit liability or asset

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

Net interest on the net defined benefit obligation 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 obligation or asset is recognized as expense or income in the statement of income.

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 obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. 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 represents the value of shares that have been issued at par. Proceeds and or fair value of considerations received in excess of par value, if any, are recognized as part of “Contributed surplus”. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of the transaction and are deducted from “Contributed surplus”.

Contingency surplus pertains to capital infusions of shareholders to cover any deficiency in the solvency requirements by the Philippine IC and can be withdrawn only upon approval of the same.

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits associated with the transaction will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Premium 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 inception date of the policy. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Premiums are recognized as revenue over the period of the contracts using the 24th method for policies with a term of exactly one (1) year, otherwise, 365th method is used. The portion of the premiums written and assumed that relate to the unexpired periods of the policies as of reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the statement of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums and presented as part of "Reinsurance assets" in the statement of financial position. The net changes in these accounts between reporting dates are charged against or credited to income or loss for the year.

Commission income
Commissions earned from short-duration insurance contracts are recognized as revenue over the period of contracts using the 24th method for policies with a term of exactly one (1) year, otherwise, 365th method is used. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date are accounted for as part of "Deferred reinsurance commissions" and presented in the statement of financial position.

Interest income
Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest method.

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

Rental income
Rental income is recognized on a straight-line basis over the term of the lease agreement.

<u>Expense Recognition</u>
Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distribution to equity participants.

Benefits and claims
Gross benefits and claims consist of benefits and claims paid to policyholders, which include changes in the gross valuation of insurance contract liabilities, except for gross changes in the provision for unearned premiums which are recorded in gross premiums earned. 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 and are offset against the related claims. Insurance claims are recorded on the basis of notification received.

Other underwriting expenses
Other underwriting expense pertains to the costs incurred by the Company prior to the issuance of policies to its policyholders. These costs include expenses for technical inspections, actuarial reviews and other work that is necessary to determine whether or not to accept the risks to be written. These costs are recognized as expense as they are incurred.

General expenses
General expenses are recognized in the statement of income as they are incurred.

Leases (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) above, and at the date of renewal or extension period for scenario (b).

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

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. The Company has not entered into any finance lease in 2019 and 2018.

Company as a Lessee
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remains with the lessor. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Company as a Lessor
Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Leases (beginning January 1, 2019)
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 and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. 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 lease term.

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

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.

Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of twelve (12) months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases that are considered of low value (i.e. ₱0.03 million or less).

Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Income Tax
Current tax
Current tax assets and liabilities 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 have been enacted or substantively enacted at the end of the reporting period.

Current income tax for current and prior periods, shall, to the extent unpaid, be recognized as a liability and is presented as "Income tax payable" in the statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as prepaid income tax included as part of "Other assets" in the statement of financial position.

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefit of the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) 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 carry forward of MCIT and unused NOLCO can be utilized.

Deferred income tax that relates to items that are recognized (a) in other comprehensive income shall be recognized in other comprehensive income and (b) directly in equity shall be recognized directly in equity account.

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

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the year 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 reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are credited to or charged against income or loss for the period.

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

Provisions
Provisions are recognized only 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 an interest expense.

Contingencies
Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the statement of income.

Events After the End of the Reporting Date
Post year-end events that provide additional information about the Company's position at the end of the reporting date (adjusting events) are reflected in the Company's financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgments and Estimates

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

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

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which has the most significant effect on the amounts recognized in the financial statements.

Classification of financial assets
The Company classifies a financial instrument depending on the purpose for which the financial instrument was acquired or originated. Management determines the classification of its financial instrument at initial recognition and, where allowed and appropriate, re-evaluates this classification at the end of each reporting date.

In addition, the Company classifies financial instruments by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial instrument is quoted in an active market is the determination on whether prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The classification of the Company's financial instruments by categories are presented under Notes 7 and 28.

Determination of lease term of contracts with renewal and termination options under PFRS 16-Company as a lessee
The Company has several lease contracts that include extension and termination options. Under PFRS 16, the Company applies judgment 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).

The Company did not consider the renewal options in determining the lease term of the contracts since it is subject to mutual agreement by the Company and the lessors.

Distinction between property and equipment and investment property
The Company determines whether a property qualifies as property and equipment or investment property. In making its judgment, the Company considers whether the property is held for use in the supply of services, or is held for capital appreciation, and to earn rentals, in which case the property shall be classified as property and equipment or investment property, respectively, as the case may be. The Company considers each property separately in making its judgment.

Where a single property is partly held for use in the supply of services and partly for capital appreciation or rentals, and that the property cannot be separately sold or leased out under a finance lease, the property is considered by management as investment property only if an insignificant portion is held for use in the supply of services.

As of December 31, 2019 and 2018, the carrying value of property and equipment amounted to ₱882.75 million and ₱833.68 million, respectively (see Note 11), while the carrying value of investment properties amounted to ₱652.92 million and ₱593.61 million, respectively (see Note 10).

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

Valuation of insurance contract liabilities
For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period 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 assumption 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 claim costs. Historical claims development is mainly analyzed by accident years but can also be further analyzed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

The carrying value of claims reported and IBNR amounted to ₱5,855.46 million and ₱3,769.54 million as of December 31, 2019 and 2018, respectively (see Note 13).

Impairment of AFS equity financial assets
The Company determines that AFS equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than twelve months for equity securities. In addition, the Company evaluates among other factors, the normal volatility in share price for quoted securities, and the future cash flows and the discount factors for unquoted securities. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating and financing cash flows.

As of December 31, 2019 and 2018, the carrying value of the Company's AFS equity financial assets amounted to ₱554.75 million and ₱577.01 million, respectively. Impairment losses recognized in 2019 and 2018 amounted to nil and ₱28.93 million, respectively (see Note 7).

Estimation of allowance for impairment losses on receivables
The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates.

The carrying values of insurance receivables amounted to ₱3,104.77 million and ₱2,972.44 million as of December 31, 2019 and 2018, respectively. The allowance for impairment losses on insurance receivables amounted to ₱70.10 million and ₱161.17 million in 2019 and 2018, respectively (see Note 6).

As of December 31, 2019 and 2018, the carrying values of loans and receivables amounted to ₱28.20 million and ₱31.24 million, respectively. As of December 31 2019, allowance for impairment losses on loans and receivables amounted to ₱1.99 million (see Note 7).

Estimation of useful lives of property and equipment and computer software
The Company reviews annually the estimated useful lives of property and equipment and computer software based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

As of December 31, 2019 and 2018, the carrying value of property and equipment amounted to ₱882.75 million and ₱833.68 million, respectively (see Note 11), while the carrying value of computer software amounted to ₱25.54 million and ₱18.13 million, respectively (see Note 11).

Evaluation of impairment of property and equipment, and computer software
The Company assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

The factors that the Company considers important which could trigger an impairment review include the following:
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

As of December 31, 2019 and 2018, the Company recognized impairment losses amounting to ₱4.56 million and ₱18.48 million, respectively, on its building classified as property and equipment (see Note 11).

Estimation of pension obligation
The determination of pension obligation and cost of pension is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates.

Due to the long-term nature of this plan, 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 the reporting date. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately in other comprehensive income in the period in which they arise. 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 obligations. See Note 16 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	**₱620,831**	₱580,831
Cash in banks	**2,476,547,753**	2,795,047,063
Cash equivalents	**1,385,036,507**	1,676,619,989
	₱3,862,205,091	₱4,472,247,883

Cash in banks earns annual interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company and earns annual interest at the prevailing short-term deposit rates. Interest income earned on cash and cash equivalents in 2019 and 2018 amounted to ₱71.25 million and ₱60.48 million respectively (see Note 21). Interest accrued on cash and cash equivalents amounted to ₱3.80 million and ₱7.60 million as of December 31, 2019 and 2018, respectively (see Note 7).

5. Short-term Investments

The rollforward analysis of this account follows:

	2019	2018
At January 1	**₱283,658,842**	₱435,288,241
Acquisitions	**770,367,546**	711,059,092
Maturities	**(617,748,661)**	(870,778,572)
Foreign exchange gains (losses)	**(6,558,604)**	8,090,081
At December 31	**₱429,719,123**	₱283,658,842

Short-term investments consist of time deposits with maturities of more than three (3) months but less than one (1) year from dates of placement. The annual interest rates of short-term investments range from 1.04% to 4.60% in 2019 and 1.10% to 4.00% in 2018. Interest income earned in 2019 and 2018 amounted to ₱6.75 million and ₱5.66 million, respectively (see Note 21). Accrued interest income amounted to ₱4.28 million and ₱5.62 million as of December 31, 2019 and 2018, respectively (see Note 7).

6. Insurance Receivables - net

This account consists of:

	2019	2018
Due from agents and brokers	**₱2,458,953,232**	₱2,300,923,251
Reinsurance recoverable on paid losses	**622,863,727**	731,818,316
Due from ceding companies	**93,048,402**	100,866,023
	3,174,865,361	3,133,607,590
Less allowance for impairment losses	**70,097,862**	161,169,632
	₱3,104,767,499	₱2,972,437,958

The tables below summarize the aging analysis of insurance receivables.

2019

	1 to 30 days	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**121 to 360 days**	**Over 360 days**	**Allowance for impairment losses**	**Total**
Due from brokers and agents	**₱718,233,242**	**₱310,046,310**	**₱293,329,960**	**₱527,404,694**	**₱576,578,511**	**₱33,360,515**	**(₱33,360,515)**	**₱2,425,592,717**
Reinsurance recoverable on paid losses	**125,390,436**	**337,900,718**	**2,049,550**	**4,359,119**	**41,875,403**	**111,288,501**	**(36,737,347)**	**586,126,380**
Due from ceding companies	**5,014,294**	**2,183,409**	**19,966,610**	**11,988,530**	**43,528,743**	**10,366,816**	**–**	**93,048,402**
	₱848,637,972	**₱650,130,437**	**₱315,346,120**	**₱543,752,343**	**₱661,982,657**	**₱155,015,832**	**(₱70,097,862)**	**₱3,104,767,499**

2018

	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	Allowance for impairment losses	Total
Due from brokers and agents	₱626,062,044	₱316,443,418	₱268,318,469	₱320,887,252	₱633,658,008	₱135,554,060	(₱126,027,127)	₱2,174,896,124
Reinsurance recoverable on paid losses	114,486,012	9,546,307	41,717,851	13,566,841	104,036,708	448,464,597	(35,142,505)	696,675,811
Due from ceding companies	11,091,993	15,096,513	2,974,826	6,422,453	52,057,246	13,222,992	–	100,866,023
	₱751,640,049	₱341,086,238	₱313,011,146	₱340,876,546	₱789,751,962	₱597,241,649	(₱161,169,632)	₱2,972,437,958

As of December 31, 2019 and 2018, the rollforward of allowance for impairment losses follows:

	2019	2018
At January 1	**₱161,169,632**	₱185,015,075
Reversals (Note 24)	**(74,053,276)**	(7,130,640)
Write-offs	**(17,018,494)**	(16,714,803)
At December 31	**₱70,097,862**	₱161,169,632

As of December 31, 2019 and 2018, the allowance for impairment losses was determined by management based on specific identification of impaired accounts which were fully provided with allowances.

In 2018, the Company was able to recover accounts that were previously written-off amounting to ₱133.21 million (see Note 22)

7. **Financial Assets**

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

	2019	2018
Financial assets at FVPL	**₱755,830,917**	₱672,844,430
AFS financial assets	**554,746,358**	577,011,677
Loans and receivables - net	**28,198,016**	31,243,150
	₱1,338,775,291	₱1,281,099,257

a. Financial Assets at FVPL

Financial assets at FVPL consist of Philippine Peso-denominated treasury bills and notes which are held for trading purposes.

The movements in the carrying values of financial assets at FVPL as of December 31, 2019 and 2018 are as follows:

	2019	2018
At January 1	**₱672,844,430**	₱474,341,864
Acquisitions	**657,722,472**	672,541,240
Disposals/maturities	**(567,000,000)**	(510,340,000)
Fair value gains (losses) (Note 21)	**(7,735,985)**	36,301,326
At December 31	**₱755,830,917**	₱672,844,430

Financial assets at FVPL earned annual interest ranging from 3.15% to 6.02% and 3.88% to 7.15% in 2019 and 2018, respectively. Interest income amounted to ₱14.26 million and ₱11.36 million in 2019 and 2018, respectively (see Note 21). Accrued interest receivables amounted to ₱5.65 million and ₱2.87 million (see loans and receivables - net section below) in 2019 and 2018, respectively.

b. AFS Financial Assets

This account consists of:

	2019		2018	
	Cost	**Fair Value**	Cost	Fair Value
Quoted equity securities - at fair value				
Common shares	**₱443,669,763**	**₱466,619,248**	₱430,911,985	₱500,434,962
Preferred shares	**73,052,227**	**83,047,110**	72,790,005	71,496,715
Club shares	**1,103,000**	**5,080,000**	1,103,000	5,080,000
	₱517,824,990	**₱554,746,358**	₱504,804,990	₱577,011,677

Quoted equity securities include common and preferred shares listed in the Philippine Stock Exchange.

Dividend income earned amounted to ₱18.42 million and ₱10.29 million in 2019 and in 2018, respectively (see Note 21).

The movements in the carrying values of AFS financial assets as of December 31 are as follows:

	2019	2018
At January 1	**₱577,011,677**	₱548,318,436
Acquisitions	**47,098,625**	38,529,928
Fair value gains (losses) recognized in other comprehensive income	**(27,098,777)**	25,922,369
Disposals	**(42,265,167)**	(6,830,958)
Impairment losses (Note 21)	**–**	(28,928,098)
At December 31	**₱554,746,358**	₱577,011,677

The movements in revaluation reserve on AFS financial assets as of December 31 are as follows:

	2019	2018
At January 1	**₱72,206,687**	₱46,767,477
Fair value gains (losses) recognized in other comprehensive income	**(27,098,777)**	25,922,369
Transferred to profit or loss (Note 21)	**(8,186,542)**	(483,159)
At December 31	**₱36,921,368**	₱72,206,687

c. Loans and receivables - net

This account consists of:

	2019	2018
Employee receivables	**₱12,934,745**	₱11,922,246
Interest receivables from:		
Financial assets at FVPL	**5,653,371**	2,872,745
Short-term investments (Note 5)	**4,283,726**	5,615,333
Cash equivalents (Note 4)	**3,801,619**	7,601,582
Mortgage loans receivable	**828,571**	540,641
Other receivables	**2,688,588**	2,690,603
	30,190,620	31,243,150
Less: Allowance for impairment losses	**1,992,604**	–
	₱28,198,016	₱31,243,150

Employee receivables pertain to loans extended by the Company to regular employees. These are collected through deduction from the employees' salaries.

Interest receivables consist of accrued interest income from bonds, special savings account and short-term investments.

Mortgage loans receivable pertain to car loans granted to regular employees of the Company.

Other receivables refer to recoverable medical expenses from health and accident insurance.

The rollforward analysis of the allowance for impairment losses follows:

	2020
At January 1	**₱–**
Provision (Note 24)	**1,992,604**
At December 31	**₱1,992,604**

8. **Deferred Acquisition Costs and Deferred Reinsurance Commissions**

a. The movements in deferred acquisition costs as of December 31 follow:

	2019	2018 (As restated – Note 30)
At January 1	**₱878,450,012**	₱872,846,689
Cost deferred during the year	**2,198,959,842**	1,700,451,532
Amortization during the year		
Through profit or loss	**(1,982,774,075)**	(1,654,234,225)
Directly to retained earnings (Note 30)	**(12,655,416)**	(40,613,984)
At December 31	**₱1,081,980,363**	₱878,450,012

The Company recognized the understatement of commission expense in 2019 and 2018 amounting to ₱12.66 million and ₱40.61 million, respectively, resulting from the application of the 24th method over the appropriate contract period of certain insurance contracts directly in retained earnings (see Note 30).

b. The movements in deferred reinsurance commissions as of December 31 follow:

	2019	2018 (As restated – Note 30)
At January 1	**₱74,486,745**	₱106,434,019
Income deferred during the year	**254,767,147**	146,040,332
Amortization during the year:		
Through profit or loss	**(187,674,997)**	(190,384,671)
Directly to retained earnings (Note 30)	**(37,030,385)**	12,397,065
At December 31	**₱104,548,510**	₱74,486,745

The Company recognized the understatement of commission income in 2019 and overstatement of commission income in 2018 amounting to ₱37.03 million and ₱12.40 million, respectively, resulting from the application of the 24th method over the appropriate contract period of certain insurance contracts directly in retained earnings (see Note 30).

9. Reinsurance Assets

This account consists of:

	2019	2018 (As restated – Note 30)
Reinsurance recoverable on unpaid losses (Note 13)	**₱3,817,155,596**	₱2,084,821,428
Deferred reinsurance premiums (Note 13)	**2,451,896,604**	1,248,687,037
	₱6,269,052,200	₱3,333,508,465

10. Investment Properties

December 31, 2019

	Land	Buildings	Total
At beginning of year, as restated	**₱546,432,090**	**₱47,175,540**	**₱593,607,630**
Fair value gain (loss) during the year (Note 21)	**60,558,791**	**(1,251,230)**	**59,307,561**
Net Book Value	**₱606,990,881**	**₱45,924,310**	**₱652,915,191**

December 31, 2018 (as restated - Note 30)

	Land	Buildings	Total
At beginning of year, as restated	₱461,742,006	₱47,505,540	₱509,247,546
Additions	–	740,213	740,213
Disposals	(122,380)	–	(122,380)
Fair value gain (loss) during the year (Note 21)	84,812,464	(1,070,213)	83,742,251
Net Book Value	₱546,432,090	₱47,175,540	₱593,607,630

The investment properties pertain to land and buildings located in Mandaluyong City and Bacolod City which are being leased out to other parties, parcels of land located in Ternate, Cavite and Daraga, Albay acquired through foreclosure which are held for capital appreciation, and land and buildings with mixed use also located in Mandaluyong City and Bacolod City which are being leased out to other parties.

The fair values of the investment properties as of December 31, 2019 and 2018 are based on valuations performed by Cuervo Appraisers, Inc. (CAI), an independent appraiser accredited by the IC and is a specialist in valuing these types of investment properties.

The fair values of the land properties and buildings, representing their highest and best use, were arrived at by using the sales comparison and cost approach, respectively. The cost approach is a comparative approach to the value of property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction cost (new) or replacement cost (new) of the subject property or asset, less total (accrued) depreciation, plus the value of the land to which an estimate of entrepreneurial incentive or developer's profit/loss is commonly added. The sales comparison approach is a comparative approach to value that considers the sales of similar or substitute properties and related market date and establishes a value estimate by processes involving comparison.

The Company classifies the fair value of its investment properties under Level 3 in the fair value hierarchy (see Note 29).

The comparison of the acquisition costs and fair values for each type of investment property is as follows:

	2019			2018		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Acquisition costs	**₱181,494,033**	**₱25,520,807**	**₱207,014,840**	₱181,494,033	₱25,520,807	₱207,014,840
Fair value gains	**425,496,848**	**20,403,503**	**445,900,351**	364,938,057	21,654,733	386,592,790
At December 31	**₱606,990,881**	**₱45,924,310**	**₱652,915,191**	₱546,432,090	₱47,175,540	₱593,607,630

11. Property and Equipment and Intangibles - net

The rollforward analyses of this account follow:

December 31, 2019

	Land	Buildings	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost / revalued amount						
At January 1	**₱431,688,312**	**₱256,263,629**	**₱264,975,179**	**₱8,322,723**	**₱151,814,579**	**₱1,113,064,422**
Additions	**–**	**8,013,419**	**36,480,100**	**17,872,107**	**14,539,641**	**76,905,267**
Revaluation adjustment	**41,699,688**	**5,347,746**	**–**	**–**	**–**	**47,047,434**
At December 31	**473,388,000**	**269,624,794**	**301,455,279**	**26,194,830**	**166,354,220**	**1,237,017,123**
Accumulated depreciation and impairment						
At January 1	**–**	**85,188,169**	**135,994,781**	**6,967,248**	**51,231,309**	**279,381,507**
Depreciation (Note 24)	**–**	**10,893,931**	**43,416,309**	**1,102,309**	**14,917,370**	**70,329,919**
Impairment (Note 11)	**–**	**4,559,004**	**–**	**–**	**–**	**4,559,004**
At December 31	**–**	**100,641,104**	**179,411,090**	**8,069,557**	**66,148,679**	**354,270,430**
Net Book Value	**₱473,388,000**	**₱168,983,690**	**₱122,044,189**	**₱18,125,273**	**₱100,205,541**	**₱882,746,693**

December 31, 2018

	Land	Buildings	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost / revalued amount						
At January 1	₱363,159,576	₱239,505,627	₱182,132,559	₱9,295,294	₱119,530,644	₱913,623,700
Additions	–	19,211,960	82,874,545	–	32,283,935	134,370,440
Transfer from accumulated depreciation	–	(1,287,315)	–	–	–	(1,287,315)
Revaluation adjustment	68,528,736	(1,166,643)	–	–	–	67,362,093
Disposal/Retirement	–	–	(31,925)	(972,571)	–	(1,004,496)
At December 31	431,688,312	256,263,629	264,975,179	8,322,723	151,814,579	1,113,064,422
Accumulated depreciation and Impairment						
At January 1	–	67,503,167	101,632,466	7,091,745	38,498,975	214,726,353
Depreciation (Note 24)	–	493,134	34,390,481	361,789	12,732,334	47,977,738
Impairment (Note 24)	–	18,479,183	–	–	–	18,479,183
Transfer to gross carrying amount	–	(1,287,315)	–	–	–	(1,287,315)
Disposal/Retirement	–	–	(28,166)	(486,286)	–	(514,452)
At December 31	–	85,188,169	135,994,781	6,967,248	51,231,309	279,381,507
Net Book Value	₱431,688,312	₱171,075,460	₱128,980,398	₱1,355,475	₱100,583,270	₱833,682,915

As at the revaluation dates on December 31, 2019, December 31, 2018 and January 1, 2018, the properties' fair values, representing their highest and best use, are based on valuations performed by CAI, an independent appraiser accredited by the IC and is a specialist in valuing these types of properties.

The fair values of the buildings were arrived at by using the cost approach, whereas the land properties were estimated using the sales comparison approach. The cost approach is a comparative approach to the value of property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction cost (new) or replacement cost (new) of the subject property or asset, less total (accrued) depreciation, plus the value of the land to which an estimate of entrepreneurial incentive or developer's profit / loss is commonly added. The sales comparison approach is a comparative approach to value that considers the sales of similar or substitute properties and related market date and establishes a value estimate by processes involving comparison.

The amounts transferred from revaluation reserves to retained earnings are ₱0.56 million and ₱0.02 million in 2019 and 2018, respectively.

The Company classifies the fair values of its property and equipment under Level 3 in the fair value hierarchy, (see Note 29).

If the land and buildings were accounted for using the cost model, the carrying amounts as of December 31, 2019 and 2018 would be as follows:

	2019			2018		
	Land	**Buildings**	**Total**	Land	Buildings	Total
Acquisition costs	**₱75,357,374**	**₱328,318,027**	**₱403,675,401**	₱75,357,374	₱320,304,608	₱395,661,982
Accumulated depreciation	**–**	**(106,349,457)**	**(106,349,457)**	–	(90,694,369)	(90,694,369)
Net carrying amount	**₱75,357,374**	**₱221,968,570**	**₱297,325,944**	₱75,357,374	₱229,610,239	₱304,967,613

The cost of fully depreciated property and equipment still used in operations amounted to ₱51.63 million and ₱23.67 million as of December 31, 2019 and 2018, respectively.

The Company recognized gain on sale of property and equipment amounting to nil and ₱0.05 million in 2019 and 2018, respectively (see Note 22).

The Company's intangible asset pertains to its computer software. The rollforward analyses follows:

	2019	2018
Cost		
At January 1	**₱27,424,553**	₱20,828,901
Additions	**13,282,207**	6,595,652
At December 31	**40,706,760**	27,424,553
Accumulated Amortization		
At January 1	**9,297,521**	5,345,356
Amortization (Note 24)	**5,867,326**	3,952,165
At December 31	**15,164,847**	9,297,521
Net Book Value	**₱25,541,913**	₱18,127,032

12. **Other Assets**

This account consists of:

	2019	2018 (As restated – Note 30)
Creditable withholding taxes	**₱238,984,848**	₱321,522,623
Bonds receivable	**155,455,481**	–
Input VAT	**140,480,315**	26,560,908
Deferred input VAT	**100,378,922**	79,203,676
Claims fund	**30,911,849**	7,381,849
Refundable deposits	**27,764,157**	26,560,504
Documentary stamps inventory	**17,230,547**	184,189,422
Security fund	**104,494**	104,494
Prepayments	**–**	5,611,460
Others	**1,867,019**	1,177,925
	713,177,632	652,312,861
Less allowance for impairment	**187,792,850**	132,759,016
	₱525,384,782	₱519,553,845

Creditable withholding taxes represent the taxes withheld at source by the counterparties which can be applied against future income tax liability.

Bonds receivable refers to the amount receivable by the Company from the principal for bond claims paid to obligee because of the principal's failure to perform its contractual obligations. In 2019, the Company booked a total ₱155.46 million of bond receivable pertaining to claims that were settled in 2018 and prior years. Generally, these bond receivables would have collateral to cover for the potential claims. However, for these cases, either there were no collaterals, or the collaterals provided were insufficient to cover the total amount of claims paid. Since collectability of these receivables are doubtful, the whole amount was provided with an allowance for impairment in 2019.

Input VAT pertains to unclaimed inputs from various brokers, agents and suppliers as of December 31, 2019 and 2018.

Deferred input VAT pertains to inputs on uncollected receivable from various brokers, agents and suppliers.

Claims fund pertain to deposits paid by the Company to various brokers intended as advance payment of claims and any remaining balance may be refunded once brokers' contracts end up.

Refundable deposits pertain to deposits paid by the Company in relation to its lease of office space which are refundable at the end of the lease contract.

Documentary stamps inventory pertained to unused documentary stamp purchased from the Bureau of Internal Revenue (BIR). This is affixed to documents, instruments, loan agreements and paper evidencing the acceptance, assignment, sale or transfer of an obligation, right or property.

Security fund pertains to investment/placement deposited to the IC.

Prepayments pertain to cash paid in advance by the Company in relation to its rental, advertising and other agreements with third parties.

Based on management's assessment, the Company's creditable withholding taxes and bonds recoverable amounting to ₱187.79 million and ₱132.76 million as of December 31, 2019 and 2018, respectively, were considered impaired. The rollforward analyses of allowance for impairment losses follow:

	2019	2018
At January 1	**₱132,759,016**	₱62,305,016
Provisions (Note 24)	**55,033,834**	70,454,000
At December 31	**₱187,792,850**	₱132,759,016

13. Insurance Contract Liabilities

Insurance contract liabilities may be analyzed as follows:

	2019			2018 (As restated – Note 30)		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities (Note 9)**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
Provision for claims reported and loss adjustment expenses	**₱4,792,805,471**	**₱3,254,181,988**	**₱1,538,623,483**	₱3,309,768,296	₱1,979,276,583	₱1,330,491,713
Provision for claims IBNR	**1,062,653,241**	**562,973,608**	**499,679,633**	459,770,330	105,544,845	354,225,485
Total claims reported and IBNR	**5,855,458,712**	**3,817,155,596**	**2,038,303,116**	3,769,538,626	2,084,821,428	1,684,717,198
Provision for unearned premiums	**5,323,832,925**	**2,451,896,604**	**2,871,936,321**	3,877,654,172	1,248,687,037	2,628,967,135
	₱11,179,291,637	**₱6,269,052,200**	**₱4,910,239,437**	₱7,647,192,798	₱3,333,508,465	₱4,313,684,333

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

	2019			2018 (As restated – Note 30)		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities (Note 9)**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
At January 1	**₱3,769,538,626**	**₱ 2,084,821,428**	**₱1,684,717,198**	₱3,185,592,181	₱1,860,732,911	₱1,324,859,270
Claims incurred during the year	**5,337,720,458**	**3,165,861,909**	**2,171,858,549**	3,161,816,292	1,243,996,408	1,917,819,884
Claims paid during the year - net of salvage and subrogation (Note 23)	**(3,854,683,283)**	**(1,890,956,503)**	**(1,963,726,780)**	(2,764,140,313)	(894,881,669)	(1,869,258,644)
Increase (decrease) in IBNR (Note 23)	**602,882,911**	**457,428,762**	**145,454,149**	186,270,466	(125,026,222)	311,296,688
At December 31	**₱5,855,458,712**	**₱3,817,155,596**	**₱2,038,303,116**	₱3,769,538,626	₱2,084,821,428	₱1,684,717,198

Provision for unearned premiums may be analyzed as follows:

	2019			2018 (As restated – Note 30)		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities (Note 9)**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
At January 1	**₱3,877,654,172**	**₱1,248,687,037**	**₱2,628,967,135**	₱2,985,528,424	₱1,061,192,420	₱1,924,336,004
New policies written during the year (Note 20)	**10,649,006,712**	**6,476,150,315**	**4,172,856,397**	9,828,403,865	4,604,210,576	5,224,193,289
Premiums earned during the year (Notes 20 and 30)	**(9,202,827,959)**	**(5,272,940,748)**	**(3,929,887,211)**	(8,936,278,117)	(4,416,715,959)	(4,519,562,158)
At December 31	**₱5,323,832,925**	**₱2,451,896,604**	**₱2,871,936,321**	₱3,877,654,172	₱1,248,687,037	₱2,628,967,135

Provision for unearned premiums may be further analyzed as follows:

	2019			2018 (As restated – Note 30)		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities (Note 9)**	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
Through profit and loss (Note 20)	**(₱10,300,720,421)**	**(₱5,366,615,362)**	**(₱4,934,105,059)**	(₱9,155,318,014)	(₱4,461,792,802)	(₱4,693,525,212)
Directly to retained earnings (Note 30)	**1,097,892,462**	**93,674,614**	**1,004,217,848**	219,039,897	45,076,843	173,963,054
At December 31	**(₱9,202,827,959)**	**(₱5,272,940,748)**	**(₱3,929,887,211)**	(₱8,936,278,117)	(₱4,416,715,959)	(₱4,519,562,158)

14. **Insurance Payables**

The roll forward analysis of this account follows:

	2019	2018
At January 1	**₱2,747,135,200**	₱2,542,943,008
Additions (Note 20)	**6,476,150,315**	4,604,210,576
Payments	**(5,489,414,889)**	(4,400,018,384)
At December 31	**₱3,733,870,626**	₱2,747,135,200

15. **Accounts Payable and Accrued Expenses**

This account consists of:

	2019	2018
Provisions	**₱703,030,637**	₱1,130,613,975
Commissions payable	**242,526,968**	322,823,728
Deferred output VAT	**197,692,205**	275,405,692
Payable to government agencies	**194,534,428**	167,954,562
Documentary stamp taxes payable	**73,665,031**	184,189,422
Accrued expenses	**61,382,044**	36,314,650
Accounts payable	**45,645,181**	270,861,215
	₱1,518,476,494	₱2,388,163,244

In 2019 and 2018, the Company recognized provisions for estimated losses amounting to ₱703.03 million and ₱1,130.61 million. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* is not disclosed because it can be expected to prejudice the Company's position. The rollforward analysis of provisions for estimated losses follows:

	2019	2018
At January 1	**₱1,130,613,975**	₱1,079,372,227
Provisions (reversals) (Note 24)	**(349,867,144)**	51,241,748
Payments	**(77,716,194)**	–
At December 31	**₱703,030,637**	₱1,130,613,975

Commissions payable pertain to sales force commissions which are non-interest bearing and payable every month.

Deferred output VAT is the calculated value-added-tax (VAT) amount that is not due until the invoice is paid.

In 2020, commissions payable and deferred output VAT pertaining to receivables that have been written-off amounting to ₱402.58 million and ₱142.15 million, respectively, and were reversed and recognized under Other income (see note 22).

Payable to government agencies include taxes withheld from staff and agents, fringe benefits taxes, local government tax, fire service tax, and premium tax.

Documentary stamp taxes payable pertains to the excise taxes imposed on certain rights embodied in a document evidencing such rights which are due to the Bureau of Internal Revenue (BIR).

Accrued expenses include accruals general expense such as professional and legal fees, utilities, etc., and are expected to be settled within twelve (12) months after the end of the reporting period.

Accounts payable represent payables for goods and services purchased that have been contracted for but not yet settled as of the end of the reporting period which are payable on demand.

16. Net Pension Asset/Obligation

The Company has a funded, non-trusteed and non-contributory defined benefit retirement plan covering all of its employees.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee’s retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Net pension obligation (asset) as of December 31 follows:

	2019	2018
Present value of pension benefit obligation	**₱273,907,804**	₱333,852,958
Fair value of plan assets	**290,188,490**	260,286,658
	(₱16,280,686)	₱73,566,300

Net pension benefit expense for the years ended December 31 consists of the following:

	2019	2018
Current service cost (Note 24)	**₱17,137,193**	₱24,904,027
Net interest cost	**5,348,270**	7,315,260
	₱22,485,463	₱32,219,287

Re-measurement loss (gain) on defined benefit plan recognized in other comprehensive income for the years ended December 31 are as follows:

	2019	2018
Re-measurement loss (gain) arising from:		
Experience adjustments	**₱31,239,918**	(₱17,026,005)
Changes in financial assumptions	**760,781**	(17,966,290)
	32,000,699	(34,992,295)
Return on assets, excluding amount included in net interest cost	**8,729,318**	4,364,917
	40,730,017	(30,627,378)
Tax effect	**(12,219,005)**	9,188,213
Remeasurement gain (loss)	**₱28,511,012**	(₱21,439,165)

Details of accumulated re-measurement loss on defined benefit plan as of December 31 follow:

	2019	2018
At January 1	**₱101,907,944**	₱132,535,322
Re-measurement loss (gain) recognized in other comprehensive income during the year	**40,730,017**	(30,627,378)
	142,637,961	101,907,944
Tax effect (Note 25)	**(42,791,388)**	(30,572,383)
At December 31	**₱99,846,573**	₱71,335,561

The reconciliation of the present value of defined benefit obligation as of December 31 follows:

	2019	2018
At January 1	**₱333,852,958**	₱330,895,889
Current service cost	**17,137,193**	24,904,027
Interest cost	**24,271,110**	18,596,349
Benefits paid	**(133,354,156)**	(5,551,012)
Actuarial losses (gains) on obligation	**32,000,699**	(34,992,295)
At December 31	**₱273,907,804**	₱333,852,958

The movements in the fair value of the plan assets as of December 31 follow:

	2019	2018
At January 1	**₱260,286,658**	₱200,731,122
Interest income	**18,922,840**	11,281,089
Return on assets (excluding amount included in net interest cost)	**(8,729,352)**	(4,364,881)
Contributions	**153,062,500**	58,190,340
Benefits paid	**(133,354,156)**	(5,551,012)
At December 31	**₱290,188,490**	₱260,286,658

The actual return on plan assets amounted to ₱10.19 million and ₱6.92 million in 2019 and 2018, respectively.

The distribution of plan assets as of December 31 follows:

	2019	2018
Cash on hand and in banks	**₱283,681,182**	₱250,989,776
Investment in commercial bills	**292,950**	292,950
Receivables	**6,214,358**	9,003,932
	₱290,188,490	₱260,286,658

The carrying value of the retirement plan assets approximates its fair value as of December 31, 2019 and 2018. The plan assets are diverse investments and do not have any concentration risk.

The Company does not currently employ any asset-liability matching strategy.

The pension benefit expense and the present value of the defined benefit obligation are determined using actuarial valuations. The latest actuarial valuation report is as of December 31, 2019. The actuarial valuation involves making various assumptions.

The principal actuarial assumptions used to determine pension benefits are as follows:

	2019	2018
Discount rate	**4.81%**	7.27%
Salary increase rate	**5.00%**	5.00%

The Company's discount rate for the defined benefit obligation was determined by reference to market yields at the reporting date of high-quality corporate bonds or government bonds consistent with the estimated term of the obligations. A lower discount rate would increase the present value of benefit obligations. The expected salary increase rate was determined by considering the inflation, seniority, promotion and other factors. The Company evaluates these assumptions on a periodic basis taking into consideration current market conditions and historical market data.

The Company performed sensitivity analysis for the changes in the significant assumptions that would increase the defined benefit obligation. The sensitivity analysis has been determined based on reasonably possible changes in the following assumptions occurring at the end of the reporting date assuming all other assumptions were held constant.

	Increase (decrease)	Increase (decrease) in defined benefit obligation 2019	2018
Discount rate	0.50%	**(₱9,323,713)**	(₱3,662,119)
	(0.50%)	**11,898,064**	4,503,928
Salary rate increase	1.00%	**23,589,186**	9,364,084
	(1.00%)	**(15,898,680)**	(6,666,704)

Shown below is the maturity analysis of the undiscounted benefits payments as of December 31:

	2019	2018
Less than 1 year	**₱55,863,540**	₱139,971,862
More than 1 year to 5 years	**84,031,673**	80,985,543
More than 5 years to 10 years	**147,003,875**	164,010,355
More than 10 years to 15 years	**211,510,204**	214,818,260
More than 15 years to 20 years	**193,350,473**	174,237,353
More than 20 years	**877,101,816**	883,008,252
	₱1,568,861,581	₱1,657,031,625

The weighted average duration of the defined benefit obligation is 18 years as of December 31, 2019 and 17 years as of December 31, 2018.

17. **Other Liabilities**

This account consists of:

	2019	2018 (As restated - Note 30)
Customers' deposits	**₱797,205,151**	₱732,826,962
Others	**143,149,253**	23,990,028
	₱940,354,404	₱756,816,990

Customers' deposits pertain to security deposits from policyholders holding bond insurance policies.

Others pertain to checks as payment to various expenses which were unreleased as of year-end as well as clients' deposits. In 2018, the Company derecognized certain clients' deposits amounting to ₱122.55 million. In 2019, some of these clients' deposits amounting to ₱92.69 million were reinstated as these were determined to still represent valid outstanding claims against the Company (see Note 30). The remaining derecognized clients' deposits amounting to ₱29.86 million were recognized as Other income in 2018 (see Note 22).

18. **Equity**

a. Capital Stock

As of December 31, 2019 and 2018, capital stock consists of 6.00 million, issued and outstanding common shares, with par value of ₱100.00 per share, amounting to a total of ₱600.00 million as of December 31, 2019 and 2018.

On March 8, 2021, the BOD approved the issuance of 9.00 million shares at ₱100.00 per share amounting to ₱900.00 million from the Company's unissued capital stock through a subscription agreement (see Note 28).

b. Contributed Surplus

This represents the original contribution of the shareholders of the Company in addition to the paid-up capital stock, in order to comply with the pre-licensing requirement under the Insurance Code. Contributed surplus amounted to ₱23.70 million as of December 31, 2019 and 2018.

c. Contingency Surplus

This represents contributions of the shareholders in order to comply with capital requirements of the Insurance Code. This can be withdrawn only upon approval of the IC. As of December 31, 2019 and 2018, the Company's contingency surplus amounted to ₱139.07 million.

19. Related Party Transactions

Transactions between related parties are based on terms similar to those offered to non-related parties. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individual or corporate entities. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

The Company has the following transactions with related parties:

Related party	Year	Premiums	Rental income	Service income	Claims and benefits	Insurance expenses	General expenses
PGA Sompo Insurance Corp.	**2019**	**₱447,586**	**₱9,362,344**	**₱275,597**	**₱6,307,009**	**₱2,416,335**	**₱–**
(PGA Sompo)	2018	453,799	8,158,943	3,930,996	7,157,125	2,228,460	–
First Life Financial Inc.	**2019**	**139,618**	**165,000**	**–**	**–**	**2,477,624**	**–**
(First Life)	2018	147,136	261,725	–	–	2,324,667	–
PGA Cars Inc	**2019**	**4,439,015**	**4,800,000**	**–**	**179,499**	**–**	**–**
(PGACars).	2018	5,701,763	4,800,000	–	1,825,019	–	–
National Grid	**2019**	**349,291,909**	**–**	**–**	**1,084,076**	**–**	**–**
Corporation	2018	48,548,825	–	–	860,479	–	–
R. Coyiuto	**2019**	**3,067**	**–**	**–**	**–**	**–**	**2,622,408**
Securities Inc. (RCSI)	2018	44,081	–	–	–	–	552,398
Other Entity with	**2019**	**174,829,647**	**–**	**–**	**36,071,339**	**–**	**254,961**
Common Director	2018	119,032,234	–	–	97,048,793	–	269,686
Total	**2019**	**₱529,150,842**	**₱14,327,644**	**₱275,597**	**₱43,641,923**	**₱4,893,959**	**₱2,877,369**
Total	2018	₱173,927,838	₱13,220,668	**₱3,930,996**	₱106,891,416	₱4,553,127	₱822,084

The Company has the following account balances with related parties:

Related party	Terms and Condition	Year	AFS financial assets (Note 7)	Due from ceding companies (Note 6)	Reinsurance recoverable on paid losses (Note 6)	Due to reinsurers (Note14)
PGA Sompo.	(i)	**2019**	**₱–**	**₱35,793,609**	**₱366,670,565**	**₱458,895,521**
		2018	–	28,961,335	344,241,397	349,724,525
Oriental Petroleum and Mineral Corporation		**2019**	**146,757,994**	**–**	**–**	**–**
		2018	166,070,772	–	–	–
Total		**2019**	**₱146,757,994**	**₱35,793,609**	**₱366,670,565**	**₱458,895,521**
Total		2018	₱166,070,772	₱28,961,335	₱344,241,397	₱349,724,525

(i) Unsecured, with 90-day credit term and are not impaired.

a. Premiums, claims and benefits, and related insurance expenses pertain to insurance contracts entered with, policies assumed by or policies ceded out to, the Company's related parties.

b. The Company, as a lessor, leases its office spaces as follows:

- In May 2019, the Company renewed its sublease agreement with PGA Sompo for the lease of its office space in Makati until December 2021. Rental income from PGA Sompo amounted to ₱9.36 million and ₱8.16 million in 2019 and 2018, respectively.

- In January 2018, the Company entered into a sublease agreement with PGA Cars for the lease of its office and parking spaces in Greenhills until December 2023. Rental income from PGA Cars amounted to both ₱4.80 million in 2019 and 2018.

- In June 2018, the entered into a lease agreement with First Life for the lease of office space in Bacolod until June 2021. Rental income from First Life amounted to ₱0.05 million and ₱0.19 million in 2019 and 2018, respectively.

c. In January 2016, the Company, as a lessee, entered into a lease agreement with GDC covering mainly office spaces for its head office in Makati. The lease is for six (6) years until December 2021 and is not subject to escalation.

   The Company also purchases various services from its related parties including transportation, travel and advertising expense.

d. The compensation and benefits paid to the Company's key management personnel follows:

	2019	2018
Salaries and wages	**₱181,045,102**	₱180,615,238
Other short-term benefits	**3,033,817**	3,005,624
	₱184,078,919	₱183,620,862

20. Net Premiums Earned

Net premiums earned consist of the following:

	2019	2018 (As restated – Note 30)
Gross premiums on insurance contracts:		
Direct	**₱9,889,295,420**	₱9,053,836,464
Assumed	**759,711,292**	774,567,401
Total gross premiums on insurance contracts (Note 13)	**10,649,006,712**	9,828,403,865
Gross change in provision for unearned premiums (Note 13)	**(348,286,291)**	(673,085,851)
Total gross premiums earned on insurance contracts	**10,300,720,421**	9,155,318,014

(Forward)

	2019	2018 (As restated – Note 30)
Reinsurers' share of gross premiums on insurance contracts (Note 13):		
Direct	**₱5,890,563,255**	₱3,988,147,486
Assumed	**585,587,060**	616,063,090
Total reinsurers' share of gross premiums on insurance contracts (Notes 13 and 14)	**6,476,150,315**	4,604,210,576
Reinsurers' share of gross change in provision for unearned premiums (Note 13)	**(1,109,534,953)**	(142,417,774)
Total reinsurers' share of gross premiums earned on insurance contracts	**5,366,615,362**	4,461,792,802
Net premiums earned	**₱4,934,105,059**	₱4,693,525,212

In 2019 and 2018, the Company recognized the overstatement of net premiums earned resulting from the application of the 24th method over the appropriate contract period of certain insurance contracts amounting to ₱1,004.22 million and ₱173.96 million, respectively, directly in retained earnings (see Notes 13 and 30).

21. Investment and Other Income - net and Interest Expense

This account consists of:

	2019	2018
Interest income from:		
Cash and cash equivalents (Note 4)	**₱71,254,897**	₱60,482,977
Financial assets at FVPL (Note 7)	**14,259,181**	11,360,330
Short-term investments (Note 5)	**6,749,571**	5,661,849
Loans and receivables	**288,548**	53,763
Fair value gain on revaluation of investment properties (Note 10)	**59,307,561**	83,742,251
Rental income (Notes 19 and 27)	**24,979,029**	23,158,453
Dividend income (Note 7)	**18,420,853**	10,288,740
Gain on sale of AFS financial assets (Note 7)	**8,186,542**	483,159
Fair value gains (losses) on financial assets at FVPL (Note 7)	**(7,735,985)**	36,301,326
Impairment losses on AFS financial assets (Note 7)	**–**	(28,928,098)
	₱195,710,197	₱202,604,750

Interest expense in 2019 includes interest on deficiency taxes paid, accretion of lease liabilities, and pension obligation. Interest expense in 2018 pertains to interest expense on pension obligation.

22. Other Income

This account consists of:

	2019	2018
Reversals of:		
Commissions payable (Note 15)	**₱402,579,323**	₱–
Deferred output VAT (Note 15)	**142,145,699**	–
Client deposits (Note 17)	–	29,855,553
Other underwriting income	**118,988,493**	108,742,306
Service income (Note 19)	**5,457,206**	4,406,564
Recovery of accounts previously written-off (Note 6)	–	133,211,780
Gain on sale of property and equipment (Note 11)	–	451,725
	₱669,170,721	₱276,667,928

Other underwriting income pertains to the profit commissions earned from foreign reinsurers.

Service income are derived from professional services to counterparties.

23. Net Insurance Contract Benefits and Claims

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

	2019	2018
Insurance contract benefits and claims paid (Note 13)		
Direct	**₱3,046,590,559**	₱2,719,327,154
Assumed	**808,092,724**	44,813,159
	₱3,854,683,283	₱2,764,140,313

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

	2019	2018
Reinsurers' share of insurance contract benefits and claims paid (Note 13):		
Direct	**₱1,889,593,645**	₱927,518,135
Assumed	**1,362,858**	(32,636,466)
	₱1,890,956,503	₱894,881,669

Gross change in insurance contract benefits and claims liabilities follow:

	2019	2018
Change in provision for claims reported and loss adjustment expenses (Note 13)		
Direct	**₱395,442,688**	₱465,435,596
Assumed	**1,087,594,487**	(67,759,617)
Change in provision for claims IBNR (Note 13)	**602,882,911**	186,270,466
	₱2,085,920,086	₱583,946,445

Reinsurers' share of change in insurance contract benefits and claims liabilities follow:

	2019	2018
Reinsurers' share of change in insurance provision for claims reported and loss adjustment expenses (Note 13)	**₱1,274,905,406**	₱349,114,739
Reinsurer's share of change in provision for claims IBNR (Note 13)	**457,428,762**	(125,026,222)
	₱1,732,334,168	₱224,088,517

24. **General Expenses**

This account consists of:

	2019	2018
Salaries, wages and benefits (Note 19)	**₱603,253,135**	₱559,885,826
Provision for (reversal of) impairment losses on:		
Other assets (Note 12)	**55,033,834**	70,454,000
Employee receivables (Note 7)	**1,992,604**	–
Insurance receivables (Note 6)	**(74,053,276)**	(7,130,640)
Service fees	**140,833,870**	106,024,811
Depreciation and amortization (Notes 11 and 27)	**122,192,139**	51,929,903
Communications, light and water	**95,133,317**	91,840,712
Entertainment, amusement and recreation	**62,711,820**	55,942,178
Rent (Notes 19 and 27)	**58,117,572**	78,498,406
Transportation (Note 19)	**47,493,858**	32,930,663
Stationery and supplies	**39,825,767**	37,563,821
Repairs and maintenance	**27,951,423**	19,300,149
Advertising (Note 19)	**19,258,674**	20,777,433
Pension benefit expense (Note 16)	**17,137,193**	24,904,027
Professional fees	**8,129,356**	16,815,755
Insurance	**7,042,802**	1,334,339
Taxes and licenses (Note 31)	**6,644,811**	10,154,292
Impairment losses on property and equipment (Note 11)	**4,559,004**	18,479,183
Club dues and membership	**3,751,091**	3,465,169
Donations to charitable institutions	**1,315,000**	100,500
Provision for (reversal of) probable losses (Note 15)	**(349,867,144)**	51,241,748
Others	**2,296,279**	1,962,416
	₱900,753,129	₱1,246,474,691

Other include expenses related to internet subscriptions and bank charges.

25. **Income Tax**

The Company's provision for income tax consists of:

	2019	2018
Current	**₱197,843,134**	₱43,381,593
Final	**17,700,872**	14,726,572
Deferred	**(96,123,869)**	(48,461,232)
	₱119,420,137	₱9,646,933

a. The current provision for income tax represents RCIT in 2019 and 2018.

The reconciliation of income before tax using the statutory corporate income tax rate of 30% to provision for income tax as shown in the statements of income follows:

	2019	2018
Provision for income tax at 30%	**₱130,071,725**	₱50,651,506
Increase (decrease) in income tax resulting from:		
Interest income subjected to final taxes	**(10,064,787)**	(8,541,104)
Fair value losses (gains) on financial assets at FVPL	**2,320,796**	(10,890,398)
Dividend income	**(5,526,256)**	(3,086,622)
Non-deductible expenses	**94,727,935**	90,274,917
Non-taxable income	**(72,770,205)**	–
Changes in unrecognized DTA	**(19,339,071)**	(108,761,366)
	₱119,420,137	₱9,646,933

b. The components of the net deferred tax assets (liabilities) follows:

	2019	2018
Deferred tax assets on:		
Affecting profit or loss:		
Provision for claims IBNR, net of reinsurance	**₱149,903,890**	₱106,267,591
Allowance for impairment losses	**47,713,483**	–
Unamortized past service cost	**44,688,548**	–
Accrued expenses	**7,578,466**	2,397,832
Impairment losses on property and equipment	**29,945,910**	27,637,556
Affecting other comprehensive income:		
Remeasurement loss on defined benefit obligation	**42,791,388**	30,572,383
	322,621,685	166,875,362
Deferred tax liabilities on:		
Affecting profit or loss:		
Unrealized gain on revaluation of investment properties	**(133,105,293)**	(115,066,900)
Post-employment benefit asset	**(47,675,594)**	–
Unrealized foreign exchange gains	**(22,314,729)**	(40,625,268)
Affecting other comprehensive income:		
Revaluation gain on property and equipment	**(124,208,701)**	(110,236,561)
	(327,304,317)	(265,928,729)
Deferred tax liabilities - net	**(₱4,682,632)**	(₱99,053,367)

The table below shows the temporary differences for which no deferred income tax assets have been set up because the Company believes that there will be no future taxable profit against which the benefit from these can be utilized.

	2019	2018
Deferred tax assets on:		
Accrued expenses	**₱12,118,330**	₱28,321,887
Allowance for impairment losses	–	3,135,514

26. Contingencies

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident in 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.

27. Leases

Company as Lessee

The Company is a party under various leases covering certain offices which have lease terms between one (1) to five (5) years for its branches and main office. The leases provide for escalation of annual rates and are renewable under certain terms and conditions.

In addition, the Company has certain lease contracts with lease terms of twelve (12) months or less and/or with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The rollforward analysis of right-of-use assets in 2019 follows:

At January 1, as previously reported	₱–
Effect of adoption of PFRS 16	82,362,753
At January 1, as restated	82,362,753
Additions	66,395,147
At December 31	148,757,900
Accumulated depreciation	
At January 1	₱–
Depreciation (Note 24)	45,994,894
At December 31	45,994,894
Net Book Value	₱102,763,006

The following are the amounts recognized in statement of income in 2019:

Depreciation expense of right-of-use assets (Note 24)	₱45,994,894
Interest expense on lease liabilities	7,272,084
Total amount recognized in statement of income	₱53,266,978

The rollforward analysis of lease liabilities follows:

Balance as at January 1, 2019	₱82,362,753
Additions	66,395,147
Interest expense	7,272,084
Payments	(48,993,040)
Balance as at December 31, 2019	₱107,036,944

Prior to adoption of PFRS 16, rentals charged against profit or loss under these lease contracts (included in 'General and administrative expenses') amounted to ₱78.49 million in 2018. Rent expense charged in 2019 amounted to ₱58.12 million which pertains to short-term and low value leases.

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

	2019	2018
Within one (1) year	**₱100,516,654**	₱100,777,129
After one (1) year but not more than five (5) years	**69,680,652**	118,375,936
	₱170,197,306	₱219,153,065

Company as Lessor
The Company has entered into a property leases on its investment property portfolio which have lease terms between three to five years. The leases provide for escalation of annual rates and are renewable under certain terms and conditions. In 2019 and 2018, rent income amounted to ₱24.98 million and ₱23.16 million, respectively, and is included under "Other income" account in the statements of income (see Note 22).

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2019	2018
Within one year	**₱20,278,707**	₱20,278,707
After one year but not more than five years	**38,426,215**	58,704,923
	₱58,704,922	₱78,983,630

28. **Management of Capital, Insurance and Financial Risks**

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

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

Capital Management Framework
The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders.

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

Minimum Statutory Networth

On August 15, 2013, the President of the Philippines approved the Republic Act No. 10607 to be known as the “New Insurance Code” (Amended Code) which provides the new capitalization requirements of all existing insurance companies based on net worth on a staggered basis starting June 30, 2015 up to December 31, 2022.

On January 13, 2015, the IC issued CL No. 02-2015 which provide clarifications on the minimum capitalization requirements under Sections 194, 197, 200 and 289 of the Amended Code. It also supersedes Department of Finance Order (DO) No. 15-2012, DO No. 27-2006, CL No. 22-2008 and CL No. 26-2008. According to the CL, the minimum net worth requirement would be 250.00 million by December 31, 2013. The minimum net worth shall be unimpaired at all times and shall increase to the amounts as follows:

Minimum Net worth	Compliance Date
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2019 and 2018, the required minimum statutory net worth for the Company is ₱900.00 million and ₱550.00 million, respectively. As of December 31, 2018, based on the approved synopsis by the Insurance Commission, the Company’s net worth amounted to ₱555.77 million. As of December 31, 2019, based on internal computations, the Company’s negative net worth amounted to ₱661.31 million on April 28, 2021.

On March 8, 2021, the BOD approved the issuance of 9.00 million shares at ₱100.00 per share amounting to ₱900.00 million from the Company’s unissued capital stock through a subscription agreement. On the same date, the BOD approved the amendment of the Company’s articles of incorporation to increase in authorized capital stock from ₱1,500.00 million divided into 15.00 million shares at ₱100.00 par value to ₱3,500.00 million divided into 3,500 shares at ₱100.00 par value. Following the BOD approval on the increase of the authorized capital stock, the Company’s shareholders infused an additional ₱700.00 million which was recognized as deposits for future stock subscription. As of April 29, 2021, the Company is still in the process of completing the requirements related to its application with the SEC to increase its authorized capital stock.

The Company’s estimated net worth after total capital infusion of ₱1,600.00 million is at ₱1,152.77 million.

Risk-based Capital Requirements

IMC No. 7-2006 provides for the RBC framework for the nonlife insurance industry to establish the required amounts of capital to be maintained by companies in relation to their investment and insurance risks. Every nonlife insurance company is required annually to maintain a minimum RBC ratio of 100% and not to fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as networth divided by the RBC requirement. Networth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of networth only to the extent authorized by IC.

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 I and Tier 2 Capital minus deductions, subject to applicable limits and determinations. Tier I 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 I 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 I Capital.

The following table shows how the RBC ratio as of December 31, based on RBC2 components, was determined by the Company:

	2019	2018
Networth	**(₱565,286,419)**	₱1,699,700,574
RBC requirement	**1,186,443,803**	1,379,259,680
RBC Ratio	**(55%)**	123.23%

The final RBC Ratio for 2019 can be determined only after the accounts of the Company have been examined by IC specifically as to admitted and non-admitted assets as defined under the Code. The RBC ratio for 2018 was the final ratio after examination and verification of the IC.

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

After taking into account the results of the audit of the 2019 Financial statements and approval of the Board of Directors, on April 29, 2021, the stockholders infused ₱1.60 billion to comply with the net worth requirement of the Insurance Commission as of December 31, 2019.

The Company's RBC ratio as of December 31, 2019 is -55%. If the capital infusion will be considered in the calculation of the RBC as of December 31, 2019, the RBC ratio will be at 145%.

Financial Reporting Framework
On December 28, 2016, IC CL No. 2015-29 was superseded by IC CL No. 2016-65 which was implemented beginning January 1, 2017. This circular prescribes the new financial reporting framework (FRF) used for statutory quarterly and annual reporting. The new FRF includes the economic valuation of asset and liabilities based on internationally accepted accounting, actuarial, and insurance core principles which requires quarterly and annual reporting of net worth to the IC. As of December 31, 2019 and 2018, the Company's total estimated admitted assets amounted to ₱17,144.47 million and ₱15,264.73 million, respectively.

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

The Company principally issues the following types of general insurance contracts: fire, motor, accident, casualty, marine, engineering and surety. Risks under general insurance policies usually cover a twelve-month duration.

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

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

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

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

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

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

	2019			2018		
	Gross Contract Liabilities	**Reinsurers Share of Liabilities**	**Net**	Gross Contract Liabilities	Reinsurers Share of Liabilities	Net
Fire	**₱3,790,129,228**	**₱2,900,324,193**	**₱889,805,035**	₱2,027,096,748	₱1,118,803,225	₱908,293,523
Motorcar	**554,072,549**	**–**	**554,072,549**	202,923,956	3,300,996	199,622,960
Engineering	**202,854,672**	**143,452,877**	**59,401,795**	745,406,536	709,998,664	35,407,872
Personal accident	**7,010,620**	**13,671**	**6,996,949**	4,209,054	120,000	4,089,054
Others	**238,738,402**	**210,391,247**	**28,347,155**	330,132,002	147,053,698	183,078,304
	₱4,792,805,471	**₱3,254,181,988**	**₱1,538,623,483**	₱3,309,768,296	₱1,979,276,583	₱1,330,491,713

The most significant risk arises from climate changes and natural disasters. These risks vary significantly in relation to the location of the risk insured by the Company, type of risks insured and in respect of commercial and business interruption, insurance by industry.

The Company also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company also has limited its exposure level by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's risk appetite as decided by management.

Assumptions
The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim cost, claims handling costs, claims inflation factors 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.

Other key assumptions include variation in interest, delays in settlement and changes in foreign currency rates.

Sensitivities
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 as represented by the table below. 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.

As a result, the final liabilities will change as a result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent financial statements.

The table below shows the impact of changes in certain important assumptions in general insurance business while other assumptions remain unchanged. The interrelation of these assumptions will have an important impact in the computation of the final liabilities. But these assumption changes should be done on an individual basis to show the effect on the claims liabilities. It is worthwhile mentioning that these assumptions are nonlinear and larger or smaller impacts cannot be seen from these results.

Sensitivity analysis as of December 31, 2019 and 2018 follows:

		2019		
	Change in Assumption	**Increase (decrease) on Gross Insurance Liabilities**	**Increase (decrease) on Net Insurance Liabilities**	**Increase (decrease) on Profit Before Income Tax**
Average claim costs	Increase by 10%	**₱316,746,403**	**₱121,432,512**	**(₱121,431,512)**
Average number of claims	Increase by 10%	**449,519,248**	**145,180,495**	**(145,180,495)**

		2018		
	Change in Assumption	Increase (decrease) on Gross Insurance Liabilities	Increase (decrease) on Net Insurance Liabilities	Increase (decrease) on Profit Before Income Tax
Average claim costs	Increase by 10%	₱271,438,500	₱101,155,480	(₱101,155,480)
Average number of claims	Increase by 10%	377,898,251	144,843,530	(144,843,530)

Loss Development Triangle

The table below is an exhibit that shows the development of claims over a period of time. It shows the cumulative incurred claims for each successive accident year at each reporting date, together with cumulative claims.

Gross insurance contract liabilities as of December 31, 2019:

Accident Year	**2009 & Prior**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Estimate of ultimate claims costs:												
At the end of accident year	**₱1,015,436,802**	**₱4,265,156,815**	**₱4,711,430,594**	**₱5,066,404,711**	**₱5,130,042,772**	**₱5,134,182,132**	**₱5,137,504,457**	**₱5,138,124,676**	**₱5,136,371,229**	**₱5,134,958,478**	**₱5,135,976,620**	**₱5,135,976,620**
One year later	**1,611,354,510**	**1,576,852,7181**	**1,544,623,245**	**1,567,747,942**	**1,567,742,156**	**1,599,512,927**	**1,599,880,337**	**1,598,796,018**	**1,597,544,804**	**1,598,442,983**		**1,598,442,983**
Two years later	**2,536,255,675**	**1,548,464,539**	**1,793,969,975**	**1,798,964,306**	**1,813,943,398**	**1,814,208,586**	**1,812,837,677**	**1,803,510,865**	**1,802,807,924**			**1,802,807,924**
Three years later	**2,240,429,489**	**1,907,509,206**	**2,113,385,984**	**2,152,650,776**	**2,152,993,725**	**2,144,638,971**	**2,151,424,837**	**2,151,747,734**				**2,151,747,734**
Four years later	**5,351,582,079**	**4,231,044,607**	**3,916,025,588**	**3,96,873,096**	**3,887,198,241**	**3,880,816,569**	**3,882,127,262**					**3,882,137,262**
Five years later	**2,604,998,086**	**2,229,464,170**	**2,237,454,498**	**2,106,191,150**	**2,074,218,140**	**2,077,808,915**						**2,077,808,915**
Six years later	**2,099,915,664**	**2,206,787,120**	**1,959,514,177**	**1,763,061,531**	**1,803,893,823**							**1,803,893,823**
Seven years later	**2,171,895,950**	**1,704,682,632**	**1,561,753,261**	**1,485,817,610**								**1,485,817,610**
Eight years later	**2,555,747,508**	**3,024,242,444**	**2,808,109,542**									**2,808,109,542**
Nine years later	**3,038,989,137**	**3,316,978,577**										**3,316,978,577**
Ten years later	**5,481,784,215**											**5,481,784,215**
Current estimate of cumulative claims	**5,481,784,215**	**3,316,978,577**	**2,808,109,542**	**1,485,817,610**	**1,803,893,823**	**2,077,808,915**	**3,882,127,262**	**2,151,747,734**	**1,802,807,924**	**1,598,442,983**	**5,135,976,620**	**31,545,505,205**
Cumulative payments to date	**5,480,673,105**	**3,316,690,371**	**2,808,109,542**	**1,485,817,610**	**1,802,072,645**	**2,058,813,252**	**3,781,859,764**	**1,901,235,940**	**1,065,839,078**	**531,746,331**	**2,519,842,096**	**26,752,699,734**
Total gross insurance contract liabilities included in the statement of financial position	**₱1,111,110**	**₱288,206**	**₱–**	**₱–**	**₱1,821,178**	**₱18,995,663**	**₱100,277,498**	**₱250,511,794**	**₱736,968,846**	**₱1,066,696,652**	**₱2,616,134,524**	**₱4,792,805,471**

Net of insurance contract liabilities as of December 31, 2019:

Accident Year	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claims costs:												
At the end of accident year	**₱545,170,842**	**₱1,914,766,251**	**₱2,499,544,251**	**₱2,568,183,239**	**₱2,580,800,254**	**₱2,583,198,935**	**₱2,586,452,889**	**₱2,587,073,108**	**₱2,585,319,661**	**₱2,583,930,993**	**₱2,584,262,683**	**₱2,584,262,683**
One year later	**319,911,042**	**741,130,551**	**787,850,829**	**811,095,997**	**810,433,530**	**825,287,810**	**825,655,219**	**824,574,272**	**823,489276**	**824,033,965**		**824,033,965**
Two years later	**845,941,042**	**1,243,539,418**	**1,278,101,161**	**1,284,097,593**	**1,298,847,128**	**1,299,112,315**	**1,297,760,003**	**1,288,604,416**	**1,287,894,875**			**1,287,894,875**
Three years later	**576.354,321**	**1,165,164,077**	**1,212,342,815**	**1,248,334,041**	**1,248,676,990**	**1,240,296,716**	**1,246,750,337**	**1,245,418,512**				**1,245,418,512**
Four years later	**917,440,815**	**2,483,650,684**	**1,996,611,100**	**1,997,378,340**	**1,992,148,256**	**1,985,366,738**	**1,984,590,434**					**1,984,590,434**
Five years later	**1,959,005,282**	**1,365,296,999**	**1,371,975,500**	**1,367,513,105**	**1,332,338,472**	**1,347,015,177**						**1,347,015,177**
Six years later	**1,545,523,033**	**1,644,972,683**	**1,513,180,138**	**1,392,811,093**	**1,447,860,726**							**1,447,860,726**
Seven years later	**1,518,896,704**	**1,334,387,264**	**1,109,734,138**	**1,118,381,685**								**1,118,381,685**
Eight years later	**1,316,458,820**	**1,474,416,644**	**1,582,416,660**									**1,582,416,660**
Nine years later	**1,758,411,545**	**2,248,178,730**										**2,248,178,730**
Ten years later	**1,971,086,469**											**1,971,086,469**
Current estimate of cumulative claims	**1,971,086,469**	**2,248,178,730**	**1,582,416,660**	**1,118,381,685**	**1,447,860,726**	**1,347,015,177**	**1,984,590,434**	**1,245,418,512**	**1,287,894,875**	**824,033,965**	**2,584,262,683**	**17,641,139,914**
Cumulative payments to date	**1,971,086,469**	**2,248,178,730**	**1,582,416,660**	**1,118,381,685**	**1,447,860,726**	**1,343,054,703**	**1,980,662,897**	**1,239,591,742**	**1,265,513,969**	**334,668,922**	**1,571,099,930**	**16,102,516,433**
Total gross insurance contract liabilities included in the statement of financial position	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3,960,474**	**₱3,927,537**	**₱5,826,770**	**₱22,380,906**	**₱489,365,043**	**₱1,013,162,753**	**₱1,538,623,483**

Financial Risk
The Company is exposed to financial risk through its financial assets and financial 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. These financial risks are credit risk, liquidity risk and market risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

Credit risk
Credit risk is a risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Prior to extending credit, the Company manages its credit risk by assessing the credit quality of its counterparties.

Another way by which the Company manages its credit risk exposure is through credit analysis. This is a process of assessing the credit quality of a counterparty that entails judgment. The credit policy group reviews all information about the counterparty which may include the counterparty's statement of financial position, statements of income and other market information. The nature of the obligation is likewise considered. Based upon this analysis, the credit analyst assigns the counterparty a credit rating to determine whether or not credit may be provided.

Credit risk limit is also used to manage credit exposure which specifies exposure limits for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

The following table provides information regarding the credit risk exposure (gross of allowance for impairment losses) of the Company as of December 31, 2019 and 2018:

	2019	2018
Cash and cash equivalents*	**₱3,861,584,260**	₱4,471,667,052
Short-term investments	**429,719,123**	283,658,842
Insurance receivables:		
Due from brokers and agents	**2,458,953,232**	2,300,923,251
Reinsurance recoverable on paid losses	**622,863,727**	731,818,316
Due from ceding companies	**93,048,402**	100,866,023
Financial assets:		
Financial assets at FVPL	**755,830,917**	672,844,430
Loans and receivables	**30,190,620**	31,243,150
Total	**₱8,252,190,281**	₱8,593,021,064

**Amount excluding cash on hand*

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

As of December 31, 2019:

	Neither past due nor impaired		**Past due**	
	High	**Medium**	**or impaired**	**Total**
Cash and cash equivalents*	**₱3,861,584,260**	**–**	**–**	**₱3,861,584,260**
Short-term investments	**429,719,123**	**–**	**–**	**429,719,123**
Insurance receivables:				
Due from agents and brokers	**1,028,279,552**	**293,329,960**	**1,137,343,720**	**2,458,953,232**
Reinsurance recoverable on paid losses	**463,291,154**	**2,049,550**	**157,523,023**	**622,863,727**
Due from ceding companies	**7,197,703**	**19,966,610**	**65,884,089**	**93,048,402**
Financial assets				
Financial assets at FVPL	**755,830,917**	**–**	**–**	**755,830,917**
Loans and receivables	**28,198,016**	**–**	**1,992,604**	**30,190,620**
Total financial assets	**₱6,574,100,725**	**₱315,346,120**	**₱1,362,743,436**	**₱8,252,190,281**

**Amount excluding cash on hand*

As of December 31, 2018:

	Neither past due nor impaired		Past due	
	High	Medium	or impaired	Total
Cash and cash equivalents*	₱4,471,667,052	₱–	₱–	₱4,471,667,052
Short-term investments	283,658,842	–	–	283,658,842
Insurance receivables:				
Due from agents and brokers	942,505,462	268,318,469	1,090,099,320	2,300,923,251
Reinsurance recoverable on paid losses	124,032,319	41,717,851	566,068,146	731,818,316
Due from ceding companies	26,188,506	2,974,826	71,702,691	100,866,023
Financial assets		–	–	
Financial assets at FVPL	672,844,430	–	–	672,844,430
Loans and receivables	31,243,150	–	–	31,243,150
Total financial assets	₱6,552,139,761	₱313,011,146	₱1,727,870,157	₱8,593,021,064

**Amount excluding cash on hand*

The credit quality of the financial assets was determined as follows:

Cash and cash equivalents, financial assets at FVPL and loans and receivables - High grade pertains to cash and cash equivalents deposited or invested in local banks belonging to the top 10 rankings and financial assets at FVPL with counterparties (including the Philippine Government) having a strong capacity to meet their obligations.

Insurance receivables - High grade pertains to receivables from counterparties with strong capacity to meet their obligations and have no history of default in payment; medium grade pertains to receivables that are usually collected beyond 60 days. Accounts beyond the standard 90-day credit term are classified as 'past due'.

The tables below show the aging analysis of past due but not impaired and impaired financial assets:

As of December 31, 2019:

	Past due but not impaired					
	91 to 120 days	**121 to 360 days**	**Over 360 days**	**Total**	**Impaired**	**Total**
Due from brokers and agents	**₱527,404,694**	**₱576,578,511**	**₱–**	**₱1,103,983,205**	**₱33,360,515**	**₱1,137,343,720**
Reinsurance recoverable on paid losses	**4,359,119**	**41,875,403**	**74,551,154**	**120,785,676**	**36,737,347**	**157,523,023**
Due from ceding companies	**11,988,530**	**43,528,743**	**10,366,816**	**65,884,089**	**–**	**65,884,089**
	₱543,752,343	**₱661,982,657**	**₱84,917,970**	**₱1,290,652,970**	**₱70,097,862**	**₱1,360,750,832**

As of December 31, 2018:

	Past due but not impaired					
	91 to 120 days	121 to 360 days	Over 360 days	Total	Impaired	Total
Due from brokers and agents	₱320,887,252	₱633,658,008	₱9,526,933	₱964,072,193	₱126,027,127	₱1,090,099,320
Reinsurance recoverable on paid losses	13,566,841	104,036,708	413,322,092	530,925,641	35,142,505	566,068,146
Due from ceding companies	6,422,453	52,057,246	13,222,992	71,702,691	–	71,702,691
	₱340,876,546	₱789,751,962	₱436,172,017	₱1,566,800,525	₱161,169,632	₱1,727,870,157

Liquidity risk

Liquidity 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. The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts. The Company manages liquidity through a liquidity risk policy which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; set up of contingency funding plans; specifies the sources of funding and the events that would trigger the plan; determines concentration of funding sources; reports liquidity risk exposures and breaches; monitoring compliance with liquidity risk policy and reviews liquidity risk policy for pertinence and changing environment.

The table below analyzes financial assets and liabilities of the Company, as well as the claims payable and related recoverable on reinsurers, into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates.

As of December 31, 2019:

	Up to a year	**1-3 years**	**No term**	**Total**
Financial assets at FVPL	**₱755,830,917**	**₱–**	**₱–**	**₱755,830,917**
AFS financial assets	–	–	**554,746,358**	**554,746,358**
Loans and receivables - net				
Cash and cash equivalents	**3,862,205,091**	–	–	**3,862,205,091**
Short-term investments	**429,719,123**	–	–	**429,719,123**
Reinsurance recoverable on unpaid losses	**3,817,155,596**	–	–	**3,817,155,596**
Insurance receivables - net	**3,104,767,499**	–	–	**3,104,767,499**
Loans and receivables	**28,198,016**	–	–	**28,198,016**
Total financial assets	**₱11,822,677,768**	**₱–**	**₱554,746,358**	**₱12,552,622,600**
Other financial liabilities				
Provision for claims reported and IBNR claims	**5,855,458,712**	–	–	**5,855,458,712**
Insurance payables	**3,733,870,626**	–	–	**3,733,870,626**
Accounts payable and accrued expenses*	**1,052,584,830**	–	–	**1,052,584,830**
Other liabilities	**940,354,404**	–	–	**940,354,404**
Total financial liabilities	**11,582,268,572**	–	–	**11,582,268,572**
Net excess liquidity	**₱240,409,196**	**₱–**	**₱554,746,358**	**₱970,354,028**

**Amount excluding statutory liability*

As of December 31, 2018:

	Up to a year	1-3 years	No term	Total
Financial assets at FVPL	₱672,844,430	₱–	₱–	₱672,844,430
AFS financial assets	–	–	577,011,677	577,011,677
Loans and receivables - net				
Cash and cash equivalents	4,472,247,883	–	–	4,472,247,883
Short-term investments	283,658,842	–	–	283,658,842
Reinsurance recoverable on unpaid losses	2,084,821,428	–	–	2,084,821,428
Insurance receivables - net	2,972,437,958	–	–	2,972,437,958
Loans and receivables	31,243,150	–	–	31,243,150
Total financial assets	₱10,263,461,430	₱–	₱577,011,677	₱11,094,265,368
Other financial liabilities				
Provision for claims reported and IBNR claims	3,769,538,626	–	–	3,769,538,626
Insurance payables	2,747,135,200	–	–	2,747,135,200
Accounts payable and accrued expenses*	1,760,613,568	–	–	1,760,613,568
Other liabilities	756,816,990	–	–	756,816,990
Total financial liabilities	9,034,104,384	–	–	9,034,104,384
Net excess liquidity	₱1,229,357,046	₱–	₱577,011,677	₱2,060,160,984

**Amount excluding statutory liability.*

It is unusual for a company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are based on management's best estimate leveraging its past experiences.

Market risk
Market risk is the risk of change in fair values or cash flows of financial instruments from fluctuations 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.

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

a) *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 and Singapore Dollar, and Japanese Yen, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements

The Company maintains US and Singapore Dollar-denominated, and Japanese Yen-denominated fixed deposits to meet its dollar obligations from its dollar insurance products.

The following tables show the details of the Company's foreign currency-denominated monetary assets and their Philippine peso equivalents.

	2019					
	USD	**PHP**	**Japanese Yen**	**PHP**	**SGD**	**PHP**
Cash and cash equivalents	**$22,083,991**	**₱1,118,222,904**	**¥5,495,408**	**₱2,543,824**	**S$–**	**₱–**
Short-term investments	**2,939,473**	**149,160,599**	**–**	**–**	**–**	**–**
Premiums receivable	**9,114,227**	**461,498,888**	**–**	**–**	**–**	**–**
Due from ceding companies	**1,037,517**	**53,333,005**	**1,435,897**	**690,092**	**–**	**–**
Reinsurance recoverable on paid losses	**524,758**	**27,232,679**	**–**	**–**	**23,563**	**903,465**
	$35,699,966	**₱1,809,448,075**	**¥6,931,305**	**₱3,233,916**	**S$23,563**	**₱903,465**

	2018					
	USD	PHP	Japanese Yen	PHP	SGD	PHP
Cash and cash equivalents	$21,118,675	₱1,110,419,949	¥5,510,763	₱2,618,164	S$–	₱–
Short-term investments	3,566,376	187,520,033	–	–	–	–
Premiums receivable	4,685,836	246,381,257	–	–	–	–
Due from ceding companies	915,609	48,142,708	–	–	–	–
Reinsurance recoverable on paid losses	114,510	6,020,939	–	–	138,687	5,335,366
	$30,401,006	₱1,598,484,886	¥5,510,763	₱2,618,164	S$138,687	₱5,335,366

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Company's income before tax.

As of December 31, 2019:

Currency	**Foreign currency appreciation / (depreciation)**	**Impact on income before tax Increase (decrease)**
US Dollar	**0.60%**	**₱10,856,688**
	(0.60%)	**(10,856,688)**
Japanese Yen	**2.70%**	**87,316**
	(2.70%)	**(87,316)**
Singapore Dollar	**2.80%**	**25,297**
	(2.80%)	**(25,297)**

As of December 31, 2018:

Currency	Foreign currency appreciation / (depreciation)	Impact on income before tax Increase (decrease)
US Dollar	3.50%	₱55,946,971
	(3.50%)	(55,946,971)
Japanese Yen	5.80%	151,853
	(5.80%)	(151,853)
Singapore Dollar	4.30%	229,421
	(4.30%)	(229,421)

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

b) *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 rate risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk. The Company's financial assets at FVPL, in particular, is exposed to fair value interest rate risk.

The Company's market risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets and interest-bearing financial liabilities.

The following tables show information relating to the Company's interest-bearing financial assets based on maturity profile:

As of December 31, 2019:

	Interest rate	**Maturity**		
	(%)	**Within a year**	**1-3 years**	**Total**
Cash in banks	**0.25 to 1.00**	**₱2,476,547,753**	**₱–**	**₱2,476,547,753**
Cash equivalents	**0.75 to 6.19**	**1,385,036,507**	**–**	**1,385,036,507**
Short-term investments and other investments	**1.04 to 4.68**	**429,719,123**	**–**	**429,719,123**
Financial assets at FVPL	**3.15 to 6.02**	**755,930,917**	**–**	**755,930,917**

As of December 31, 2018:

	Interest rate	Maturity		
	(%)	Within a year	1-3 years	Total
Cash in banks	0.25 to 1.00	₱2,795,047,063	₱–	₱2,795,047,063
Cash equivalents	0.75 to 6.25	1,676,619,989	–	1,676,619,989
Short-term investments and other investments	1.10 to 4.00	283,658,842	–	283,658,842
Financial assets at FVPL	3.88 to 7.15	672,844,430	–	672,844,430

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on revaluing fixed rate financial assets at FVPL. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

	Change in interest rates	**Impact on income before tax Increase (decrease)**
December 31, 2019	**+100 basis points**	**(₱4,866,743)**
	–100 basis points	**4,672,247**
December 31, 2018	+100 basis points	(₱5,539,560)
	–100 basis points	5,561,888

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

c) Price risk

The Company's price risk exposure at year end relates to financial assets and liabilities whose values fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk). This relates primarily to the Company's AFS equity financial assets.

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

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

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

As of December 31, 2019:

Market index	**Change in equity prices**	**Impact on equity Increase (decrease)**
PSEi 2019	**+2.00%**	**₱1,702,977**
PSEi 2019	**-2.00%**	**(1,702,977)**

As of December 31, 2018:

Market index	Change in equity prices	Impact on equity Increase (decrease)
PSEi 2018	+1.00%	₱1,630,411
PSEi 2018	-1.00%	(1,630,411)

29. Fair Value Measurement

Financial Instruments

The carrying values of cash and cash equivalents, insurance receivables, loans and receivables, insurance payables, accounts payable and accrued expenses, loans payable and other liabilities approximate their fair values due to the short-term nature of these financial instruments.

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

Fair value Hierarchy
The fair value hierarchy of the Company's financial and non-financial assets are summarized in the tables below.

	2019				
		Fair Value			
	Carrying Value	**Total**	**Quoted Prices in active market (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets measured at fair value					
Financial Assets					
Financial assets at FVPL:					
Government Securities	**₱755,830,917**	**₱755,830,917**	**₱755,830,917**	**₱–**	**₱–**
Financial assets at AFS:					
Common shares	**443,669,763**	**466,619,248**	**466,619,248**	**–**	**–**
Preferred shares	**73,052,227**	**83,047,110**	**83,047,110**	**–**	**–**
Non-financial Assets				**–**	**–**
Investment properties	**652,915,191**	**652,915,191**	**–**	**–**	**652,915,191**
Property and equipment	**882,746,693**	**882,746,693**	**–**	**–**	**882,746,693**
	2,808,214,791	**2,841,159,159**	**1,305,497,275**	**–**	**1,535,661,884**
Assets for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Employee receivables	**12,934,745**	**10,942,141**	**–**	**10,942,141**	**–**
Interest receivables	**13,738,716**	**13,738,716**	**–**	**13,738,716**	**–**
Mortgage loans receivables	**828,571**	**828,571**	**–**	**828,571**	**–**
Other receivables	**2,688,588**	**2,688,588**	**–**	**2,688,588**	**–**
	₱30,190,260	**₱28,198,016**	**₱–**	**₱28,198,016**	**₱–**

	2018				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial Assets					
Financial assets at FVPL:					
Government Securities	₱672,844,430	₱672,844,430	₱672,844,430	₱–	₱–
Financial assets at AFS:					
Common shares	430,911,985	500,434,962	500,434,962	–	–
Preferred shares	72,790,005	71,496,715	71,496,715	–	–
Non-financial Assets				–	–
Investment properties	593,607,630	593,607,630	–	–	593,607,630
Property and equipment	833,682,915	833,682,915	–	–	833,682,915
	2,603,836,965	2,672,066,652	1,244,776,107	–	1,427,290,545
Assets for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Employee receivables	11,922,246	11,922,246	–	11,922,246	–
Interest receivables	16,089,660	16,089,660	–	16,089,660	–
Mortgage loans receivables	540,641	540,641	–	540,641	–
Other receivables	2,690,603	2,690,603	–	2,690,603	–
	₱31,243,150	₱31,243,150	₱–	₱31,243,150	₱–

As of January 02, 2020, the date of valuation, the non-financial assets' fair values are based on the valuations performed by CAI.

Description of valuation techniques used and key inputs to valuation on investment properties are as follows:

Location	Significant unobservable inputs	2019	2018
		Range (weighted average)	
Block 3, Lot 5 Barangay East Greenhills, Mandaluyong City	External factor	**-10%**	-10%
	Net price (₱/sq.m)	**₱286,890**	₱292,890
	Internal factor		
	Location	**3.33%**	3.33%
	Size	**2.33%**	6.33%
	Improvement	**–**	–
	Algebraic sum of internal factor	**1%**	-9.67%
	Computed Value	**₱290,546**	₱264,351
Block 3, Lot 2 Barangay East Greenhills, Mandaluyong City	External factor	**-10%**	-10%
	Net price (₱/sq.m)	**₱286,890**	₱292,890
	Internal factor		
	Location	**3.33%**	3.33%
	Size	**2.33%**	6.33%
	Improvement	**–**	–
	Algebraic sum of internal factor	**1%**	-9.67%
	Computed Value	**₱290,546**	₱264,351
Rizal Street, Barangay 21 Bacolod City, Negros Occidental	External factor	**-8.33%**	-8.33%
	Net price (₱/sq.m)	**₱36,333**	₱36,667
	Internal factor		
	Location	**5%**	11.67%
	Size	**3.5%**	3.66%
	Time Element	**4.33%**	2.33%
	Improvement	**1%**	1.67%
	Algebraic sum of internal factor	**10.67%**	16%
	Computed Value	**₱40,003**	₱37,357

30. Restatements

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2018 is presented in these financial statements due to retrospective adjustments as disclosed below. Following are the significant adjustments that brought about those restatements:

a. *Provision for unearned premiums, deferred reinsurance premiums, deferred acquisition costs, and deferred reinsurance commissions*
In 2019, a reassessment was performed in the contract period used in the application of the 24th method to the Company's insurance contracts, most of which pertain to long duration insurance contracts. This resulted to adjustments to prior year balances of provision for unearned premiums, deferred reinsurance premiums, deferred acquisition costs, and deferred reinsurance commissions. The impact of these adjustments to net premiums earned, commission expense and commission income in 2018 were recognized as direct adjustments to retained earnings.

b. *Provision for Claims IBNR, Reinsurer's share on IBNR, Gross change in insurance contract benefits and claims liabilities, and Reinsurers' share of change in insurance contract benefits and claims liabilities*
The IBNR provisions in prior years were recalculated to take into account the adjustments made in item a above. Accordingly, the impact to the 2018 financial statements were recognized as part of the retrospective adjustments.

c. *Gross insurance contract benefits and claims paid and other assets*
Assets held for sale from recoveries on claims paid in prior periods were recognized accordingly in the period when the related claims were settled, and the financial statements have been restated to reflect such adjustments

d. *Other liabilities*
Deposits pertaining to expired bond insurance policies that were reversed in prior periods were reinstated as these still represent valid claims against the Company.

Management believes that the presentation of a statement of financial position as at the beginning of the earliest period presented is necessary as the restatements have significant impact on the Company's retained earnings as of January 1, 2018 as follows:

	As at December 31, 2018		
	As previously stated	Adjustments	As Restated
Statement of Financial Position			
Assets			
Deferred acquisition costs	₱934,551,044	(₱56,101,032)	₱878,450,012
Reinsurance assets - Deferred reinsurance premiums	1,132,902,826	115,784,211	1,248,687,037
Reinsurance assets - Reinsurer's share on IBNR	261,580,235	(156,035,390)	105,544,845
Other assets	514,963,100	4,590,745	519,553,845
Liability			
Insurance Contract Liabilities - Provision for unearned premiums	3,534,792,777	342,861,935	3,877,654,172
Insurance Contract Liabilities - Provision for Claims IBNR	389,005,215	70,765,115	459,770,330
Deferred reinsurance commissions	55,737,758	18,748,987	74,486,745
Deferred income tax liabilities - net	167,093,519	(68,040,152)	99,053,367
Other liabilities	664,126,244	92,690,746	756,816,990
Equity			
Retained earnings	927,899,245	(548,787,555)	379,111,690

	For the year ended December 31, 2018		
	As previously stated	Adjustments	As Restated
Statement of Income			
Gross insurance contract benefits and claims paid	₱2,768,731,063	(₱4,590,750)	₱2,764,140,313
Gross change in insurance contract benefits and claims liabilities	513,181,330	70,765,115	583,946,445
Reinsurers' share of change in insurance contract benefits and claims liabilities	380,123,907	(156,035,390)	224,088,517
Provision for income tax - deferred	19,578,920	(68,040,152)	(48,461,232)
Net income	313,361,025	(154,169,604)	159,191,421

	As at January 1, 2018		
	As previously stated	Adjustments	As Restated
Statement of Financial Position			
Assets			
Deferred acquisition costs	₱888,333,737	(₱15,487,048)	₱872,846,689
Reinsurance assets - Deferred reinsurance premiums	990,485,052	70,707,368	1,061,192,420
Liability			
Insurance Contract Liabilities - Provision for unearned premiums	2,861,706,926	123,821,498	2,985,528,424
Deferred reinsurance commissions	100,082,095	6,351,923	106,434,018
Other liabilities	269,775,614	92,690,746	362,466,360
Equity			
Retained earnings	614,560,894	(167,643,848)	446,917,046

31. Supplementary information required under revenue regulations no. 15-2010

In compliance with the requirements set forth by Revenue Regulations (RR) No. 15-2010 hereunder are the information on taxes and license fees paid or accrued for the year ended December 31, 2019.

a. Value-Added Tax (VAT)

i. The Company is a VAT-registered entity with output VAT declaration of ₱1,186.71 million in 2019 based on the total direct premiums reflected in the Company's VAT returns amounting to ₱9,889.30 million.

The Company has zero-rated transactions amounting to ₱139.49 million in 2019 which pertain to sale to an entity registered with Philippines Economic Zone Authority (PEZA). Purchases by PEZA-registered entities are subject to zero-rated VAT pursuant to the provisions of Republic Act No. 7227, RR No. 2-2005, and BIR Ruling ITAD-45-00.

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

Balance at January 1	₱26,560,908
Current year's purchases/payments:	
Goods other than for resale	10,635,315
Services paid lodged under operating expenses	210,823,432
	248,019,655
Input VAT applied against Output VAT	(196,048,589)
Balance at December 31	₱51,971,066

b. Taxes relating to Nonlife Insurance Polices

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

i. The total documentary stamp tax (DST) affixed on insurance policies amounted to ₱782.77 million in 2019.

ii. Other taxes during year which represent the total amount accrued and paid follow:

Premium taxes	₱3,529,557
Fire service taxes	15,525,758
Local government taxes	10,467,363
	₱29,522,678

c. Other Taxes and Licenses

Details of other taxes, local and national, including real estate taxes, license and permit fees are presented in the succeeding tables.

i. National taxes and licenses:

Fringe benefits tax	₱1,071,867
DST	86,913
LTO registration	206,103
IC fees	1,649,711
Total	₱3,014,594

ii. Local taxes and licenses:

Mayor's permit	₱2,420,858
Real estate taxes	1,094,235
Appraisal fee	74,500
Notarial fees	30,124
Community tax certificate	10,500
Total	₱3,630,217

The company did not incur any excise tax in 2019.

d. Withholding Taxes

The amount of withholding taxes for the year amounted to:

Expanded withholding taxes	₱258,324,954
Tax on compensation and benefits	76,220,658
Total	₱334,545,612

e. Tax Assessments

In 2019, the Company has paid the following deficiency tax assessments:

Taxable Year	Basic	Penalties	Total
2016	₱205,163,642	₱67,972,712	₱273,136,354
2017	261,655,633	43,229,806	304,885,439
2018	64,124,180	5,935,774	70,059,954
Total	₱530,943,455	₱117,138,292	₱648,081,747

In January 2021, the Company received two (2) Letters of Authority from the Bureau of Internal Revenue to examine the Company's books of accounts and other accounting records for Value Added Tax and all internal revenue taxes including documentary stamp tax and other taxes for the period of January 1, 2019 to December 31, 2019. Currently, no assessment has been made by the tax examiners.

32. Events After the Reporting Period

COVID-19

In a move to contain the COVID-19s outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to May 15, 2020. On May 16, 2020, several provinces have been transitioned to General Community Quarantine (GCQ) while those regions with the highest risk of spreading the pandemic (including National Capital Region) have been moved to a modified ECQ. Effective June 1, 2020, the Office of the President of the Philippines eased the modified ECQ in the National Capital Region to GCQ in order to allow more movement and business reopening in a phased return to economic recovery. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continues to evolve.

The Company implemented adjustments in its operating schedule. Starting May 18, 2020, the Company temporarily operates a skeletal force to observe social distancing among employees while other employees were under the work from home arrangement.

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

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Company.

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.00 million and with total assets not exceeding ₱100.00 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

- Imposition of improperly accumulated earnings tax (IAET) is repealed.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2011 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Company would have been subjected to lower minimum corporate income tax rate of 1% effective July 1, 2020.

This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020, which will be reflected in the Company's 2020 annual income tax return but will only be recognized for financial reporting purposes in its 2021 financial statements. Pending clarification from the tax authorities on how the taxable income for the period beginning July 1, 2020 will be computed, the Company has not quantified the impact of the lower corporate income tax rate on the 2020 current income tax.