



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
AFP General Insurance Corporation
AFPGEN Bldg. Col Bonny Serrano Road corner EDSA
Quezon City

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of AFP General Insurance Corporation (the Company), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

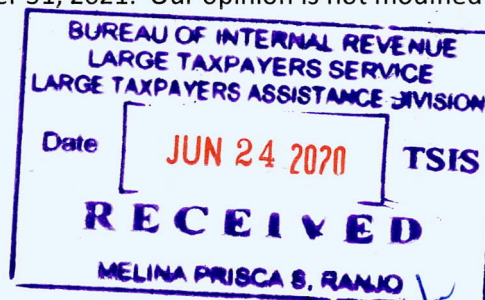
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Company voluntarily ceased its insurance business on April 25, 2019 and applied as a servicing insurance Company with the Insurance Commission (IC). On June 24, 2019, the IC approved its application and issued the Company's Certificate of Authority to transact business until December 31, 2021. Our opinion is not modified in respect of this matter.





Other Matter

The financial statements of the Company as at and for the year ended December 31, 2018 were audited by another auditor, whose report dated April 26, 2019 expressed an unmodified opinion on those statements. The opinion of such auditor, however, does not include restatement adjustment disclosed in Note 4 to the financial statements.

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 PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

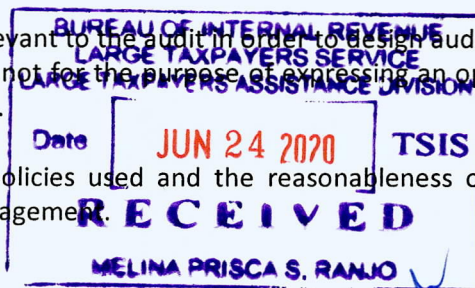
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.





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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 30 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 AFP General Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REYES TACANDONG & CO.

Pamela Ann P. Escudro
PAMELA ANN P. ESCUADRO

Partner

CPA Certificate No. 128829

Tax Identification No. 216-321-918-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 1471-AR-1 Group A

Valid until June 4, 2021

IC Accreditation No. SP-2018-003-O

Valid until March 7, 2021

BIR Accreditation No. 08-005144-013-2020

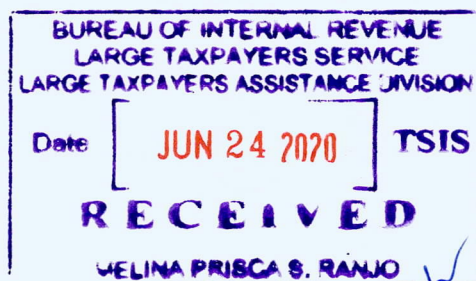
Valid until January 1, 2023

PTR No. 8116481

Issued January 6, 2020, Makati City

March 31, 2020

Makati City, Metro Manila



AFP GENERAL INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Armed Forces and Police Mutual Benefit Association, Inc.)

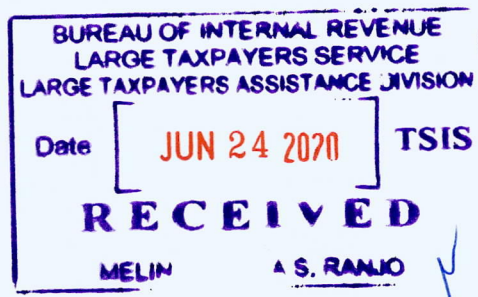
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

(With Comparative Figures for 2018)

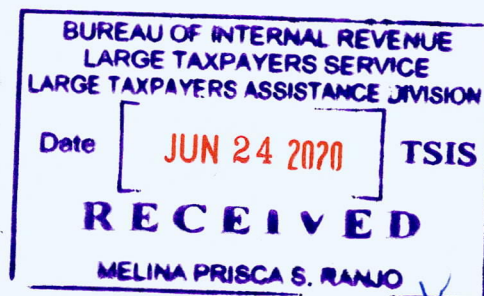
		December 31	
			2018
			(As Restated -
	Note	2019	Note 4)
ASSETS			
Current Assets			
Cash and cash equivalents	5	P248,693,693	P209,036,798
Short-term investments	6	31,039,292	90,991,945
Insurance receivables	7	58,879,040	117,881,423
Deferred reinsurance premiums	8	1,923,493	14,020,808
Deferred acquisition cost	9	11,780,703	30,733,753
Current portion of held-to-maturity (HTM) investments	12	197,572,266	47,162,052
Other current assets	10	14,095,804	22,640,213
Total Current Assets		563,984,291	532,466,992
Noncurrent Assets			
Available-for-sale (AFS) financial assets	11	148,651,730	151,771,222
Noncurrent portion of HTM investments	12	84,000,000	234,792,890
Investment properties	13	5,768,000	8,240,000
Property and equipment	14	15,650,971	19,324,738
Net retirement asset	23	2,819,949	2,768,629
Net deferred tax assets	24	10,946,443	33,789,107
Total Noncurrent Assets		267,837,093	450,686,586
		P831,821,384	P983,153,578
LIABILITIES AND EQUITY			
Current Liabilities			
Insurance contract liabilities	15	P160,573,334	P110,028,892
Insurance payables	16	9,213,766	15,971,840
Accounts and other payables	17	72,644,054	105,110,422
Reserve for unearned premiums	18	40,758,323	140,828,437
Deferred reinsurance commissions	19	337,958	2,875,683
Income tax payable	24	-	889,644
Total Liabilities		283,527,435	375,704,918

(Forward)



		December 31	
		2019	2018
	Note		(As Restated – Note 4)
Equity			
Capital stock	26	₱477,750,000	₱477,750,000
Additional paid-in capital (APIC)	26	173,140,704	173,140,704
Contributed surplus		500,000	500,000
Deficit		(100,230,148)	(34,128,856)
Cumulative fair value changes on AFS financial assets	11	765,663	(5,894,668)
Cumulative remeasurement loss on net retirement asset	23	(3,632,270)	(3,918,520)
Total Equity		548,293,949	607,448,660
		₱831,821,384	₱983,153,578

See Accompanying Notes to the Financial Statements.



AFP GENERAL INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Armed Forces and Police Mutual Benefit Association, Inc.)

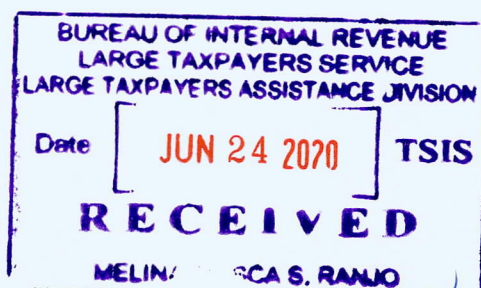
STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

(With Comparative Figures for 2018)

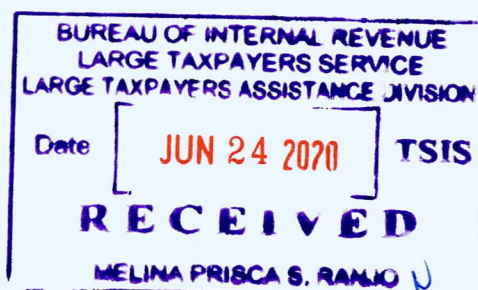
	Note	2019	2018
UNDERWRITING INCOME			
Direct premiums written	18	₱80,556,123	₱249,403,370
Premiums assumed	18	20,869,470	24,611,817
Gross premiums		101,425,593	274,015,187
Premiums ceded	8, 18	(11,829,587)	(34,250,513)
Premiums retained	18	89,596,006	239,764,674
Net change in the reserve for unearned premiums and deferred reinsurance premiums	18	87,972,799	(7,666,600)
Net premiums earned	18	177,568,805	232,098,074
Reinsurance commissions earned	19	4,475,479	6,142,534
GROSS UNDERWRITING INCOME		182,044,284	238,240,608
UNDERWRITING EXPENSES			
Losses and claims	20	98,622,409	93,956,946
Commission expense	9	38,767,991	51,120,792
Other underwriting expenses	20	15,463,357	19,612,210
		152,853,757	164,689,948
NET UNDERWRITING INCOME		29,190,527	73,550,660
GENERAL AND ADMINISTRATIVE EXPENSES	22	(95,180,282)	(105,502,878)
INVESTMENT AND OTHER INCOME (LOSS)	21	27,798,166	(2,145,427)
LOSS BEFORE INCOME TAX		(38,191,589)	(34,097,645)
PROVISION FOR (BENEFIT FROM) INCOME TAX			
Current		181,972	889,644
Deferred		22,719,986	(4,856,118)
Final		5,007,745	3,206,748
	24	27,909,703	(759,726)
NET LOSS		(₱66,101,292)	(₱33,337,919)

(Forward)



	Note	2019	2018
OTHER COMPREHENSIVE INCOME			
<i>Item that will be reclassified to profit or loss</i>			
Net change in cumulative fair value changes on AFS			
financial assets	11		
Net unrealized fair value gain		P6,720,238	P10,660,379
Transfer to profit or loss		(59,907)	(5,043,233)
		6,660,331	5,617,146
<i>Item that will not be reclassified to profit or loss</i>			
Net change in cumulative remeasurement loss on net			
retirement asset	23		
Remeasurement gain		408,928	1,331,067
Deferred tax		(122,678)	(399,320)
		286,250	931,747
OTHER COMPREHENSIVE INCOME		6,946,581	6,548,893
TOTAL COMPREHENSIVE LOSS		(P59,154,711)	(P26,789,026)

See Accompanying Notes to Financial Statements.

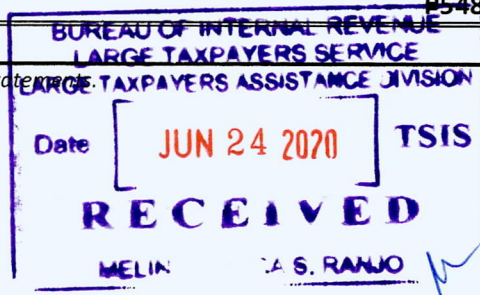


AFP GENERAL INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Armed Forces and Police Mutual Benefit Association, Inc.)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures for 2018)

	Note	2019	2018 (As Restated - Note 4)
CAPITAL STOCK	26		
Common Shares - ₱1,000 par value			
Authorized - 250,000 shares			
Issued and outstanding - 250,000 shares		₱250,000,000	₱250,000,000
Preferred Shares - ₱1,000 par value			
Authorized - 275,000 shares			
Subscribed - 275,000 shares (net of subscription receivables of ₱47.3 million)		227,750,000	227,750,000
		477,750,000	477,750,000
ADDITIONAL PAID-IN CAPITAL		173,140,704	173,140,704
CONTRIBUTED SURPLUS		500,000	500,000
DEFICIT			
Balance at beginning of year		(34,128,856)	(790,937)
Net loss		(66,101,292)	(33,337,919)
Balance at end of year		(100,230,148)	(34,128,856)
OTHER COMPONENTS OF EQUITY			
Cumulative Fair Value Changes on AFS Financial Assets	11		
Balance at beginning of year		(5,894,668)	(11,511,814)
Net unrealized gain on fair value changes on AFS investments		6,660,331	5,617,146
Balance at end of year		765,663	(5,894,668)
Cumulative Remeasurement Loss on Net Retirement Asset	23		
Balance at beginning of year		(3,918,520)	(4,850,267)
Remeasurement gain on retirement asset		286,250	931,747
Balance at end of year		(3,632,270)	(3,918,520)
		(2,866,607)	(9,813,188)
		₱548,293,949	₱607,448,660

See accompanying Notes to the Financial Statements

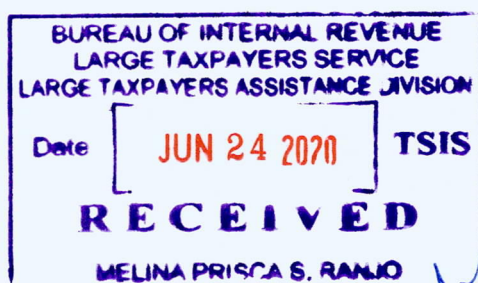


AFP GENERAL INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Armed Forces and Police Mutual Benefit Association, Inc.)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures for 2018)

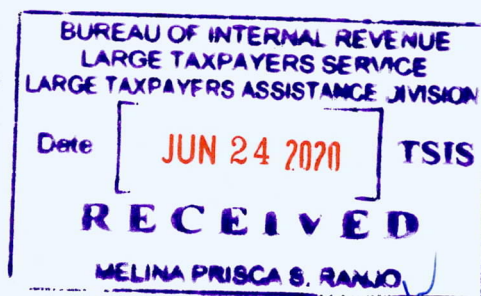
	Note	2019	2018 (As Restated - Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(P38,191,589)	(P34,097,645)
Adjustment for:			
Interest income	5	(25,281,247)	(16,265,475)
Impairment losses on insurance receivables	7	20,725,294	10,858,673
Depreciation and amortization	13, 22	4,440,856	4,308,284
Dividend income	21	(2,506,246)	(2,738,669)
Loss (gain) on revaluation of investment property	21	2,472,000	(3,296,000)
Retirement expense	23	1,707,608	2,452,703
Foreign exchange loss (gain)	21	664,452	(703,926)
Amortization of premium on HTM investments	12	383,537	426,479
Loss (gain) on sale of AFS financial assets	21	(83,574)	31,595,398
Reversal of impairment loss due to disposal of AFS financial assets	11	—	(9,484,685)
Operating loss before working capital changes		(35,668,909)	(16,944,863)
Decrease (increase) in:			
Insurance receivables		38,089,142	3,033,696
Deferred reinsurance premiums		12,097,315	(2,768,647)
Deferred acquisition costs		18,953,050	2,200,464
Other current assets		8,544,409	(3,178,164)
Increase (decrease) in:			
Insurance contract liabilities		50,544,442	(15,482,905)
Accounts payable and accrued expenses		(32,466,368)	41,396,735
Insurance payables		(6,758,074)	(745,940)
Reserve for unearned premiums		(100,070,114)	10,435,247
Deferred reinsurance commission		(2,537,725)	949,978
Net cash generated from (used for) operations		(49,272,832)	18,895,601
Income taxes paid		(6,079,361)	(3,928,648)
Contributions paid	23	(1,350,000)	(3,406,307)
Net cash provided by (used in) operating activities		(P56,702,193)	P11,560,646

(Forward)



	Note	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		₱25,469,194	₱14,911,858
Dividends received		2,506,246	3,995,799
Proceeds from sale of:			
Short-term investments		59,952,653	—
HTM investments		47,000,000	—
AFS financial assets		10,786,333	164,789,993
Property of equipment	14	53,219	—
Acquisition of:			
AFS financial assets and HTM investments	11, 12	(47,923,797)	(46,596,470)
Property and equipment	14	(820,308)	(1,790,374)
Short-term investments		—	(83,503,495)
Net cash provided by investing activities		97,023,540	51,807,311
NET INCREASE IN CASH AND CASH EQUIVALENTS		40,321,347	63,367,957
EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS		(664,452)	703,926
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		209,036,798	144,964,915
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	₱248,693,693	₱209,036,798

See Notes to Financial Statements.



AFP GENERAL INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Armed Forces and Police Mutual Benefit Association, Inc.)

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

(With Comparative Information for 2018)

1. Corporate Information

AFP General Insurance Corporation (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 22, 1979. The Company is engaged in the business of motor car, fire, marine, fidelity and surety insurance, and on all other forms of non-life insurance authorized by law.

On June 24, 2019, Certificate of Authority (CA) No. 2019/23-R-A was granted to the Company by the Insurance Commission (IC) to transact as a servicing insurance company in non-life insurance business (fire, marine, casualty and surety) until December 31, 2021.

The Company is a wholly-owned subsidiary of Armed Forces and Police Mutual Benefit Association Inc. (AFPMBAI), a non-stock corporation registered in the Philippines.

The Company's principal and registered office is located at AFPGEN Bldg. Col. Bonny Serrano Road, corner EDSA, Quezon City.

Status of Operations

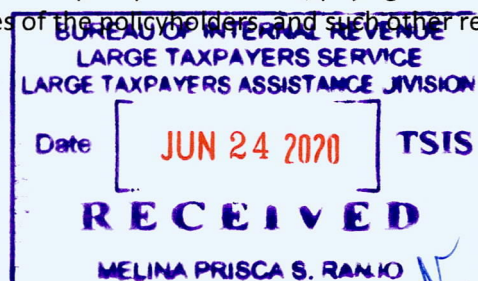
The Company incurred a net loss amounting to ₱66.1 million for the year ended December 31, 2019 (₱33.3 million for the year ended December 31, 2018), resulting to an accumulated deficit amounting to ₱100.2 million as at December 31, 2019 (₱34.1 million as at December 31, 2018). Total equity amounted to ₱548.3 million as at December 31, 2019 (₱607.4 million as at December 31, 2018).

Under Section 194 of the Amended Insurance Code (Republic Act 10607), insurance companies are required to maintain a minimum net worth of ₱550.0 million, ₱900.0 million, and ₱1,300.0 million as at December 31, 2016, 2019, and 2022, respectively.

Because the Company was not able to comply with the minimum net worth requirement, the Company decided to convert its license to a servicing insurance company.

On April 25, 2019, the BOD approved the Company's voluntary cessation of insurance business and its application to transact as a servicing insurance company from IC.

On June 24, 2019, IC issued the Certificate of Authority approving the Company's application as a servicing insurance company and to transact its business until December 31, 2021. Pursuant to IC Circular Letter No. 2014-14, the Company's authority shall be limited to accepting contract price payments from the policyholders, granting direct policyholders loans, paying or settling claims under its non-life coverage, reviving lapsed policies of the policyholders and such other related services.



Events after the Reporting Date

The country is currently experiencing a pandemic virus crisis resulting in a slowdown in the Philippine economy because of mandated lockdowns all over the country starting March 16, 2020. While the financial impact is considered a non-adjusting subsequent event as at December 31, 2019, the effect on the Company's operations and financial performance, however, cannot be reasonably determined as at report date.

Authorization and Approval for Issuance of the Financial Statements

The accompanying financial statements as at and for the year ended December 31, 2019 were approved and authorized for issue by the Board of Directors (BOD) on March 31, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council (FRSC) and adopted by SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting Interpretations Committee (IFRIC) and SEC provisions.

Measurement Bases

The financial statements are presented in Philippine Peso, which is the Company's functional and presentational currency. All values are stated in absolute amounts unless otherwise stated.

The financial statements have been prepared on the historical cost basis of accounting, except for available-for-sale (AFS) investments and investment properties which are stated at fair value and net retirement asset which is measured at the fair value of plan assets (FVPA) less present value of the defined benefit obligation (PVBO). Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability.

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

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

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

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

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

Further information about the assumptions made in measuring fair value of assets is included in the following notes:

- Note 3 – Significant Accounting Judgments, Estimates and Assumptions
- Note 11 – Available-for-sale (AFS) financial assets
- Note 13 – Investment Properties
- Note 29 – Fair Value of Financial Instruments

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Company adopted effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – PFRS 16 replaced PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides two recognition exemptions for lessees from this PFRS – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, the lessee shall recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The lessee is required to recognize the interest on the lease liability and to depreciate the right-of-use (ROU) asset.

The lease liability shall be reviewed when there are changes in the lease term and other events affecting the lease, such as future lease payments resulting from a change in the index or rate used to determine those payments. The remeasurement of the lease liability should be recognized as an adjustment to the ROU asset.

Lessor accounting under PFRS 16 is substantially unchanged from accounting under PAS 17. The lessor shall continue to classify leases using the same classification principle as in PAS 17 to distinguish the two types of leases: operating and finance leases.

The Company generally leases spaces from third parties with terms of 12 months or less which are renewable upon mutual agreement of both parties. Management has assessed that the impact of the adoption of PFRS 16 in the Company's financial statements is not significant. Accordingly, the Company elected to apply the recognition exemption on leases of low-value assets and short-term leases. The related lease expenses on these lease agreements are recognized in the profit or loss on a straight-line basis.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) matters to be considered in accounting for uncertain tax treatments separately, (ii) assumptions for taxation authorities' examinations, (iii) determinants of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.
- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.
- Amendments to PAS 12, *Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – The amendments require entities to recognize the income tax consequences of dividends as defined in PFRS 9 when the liability to pay dividends are recognized. The income tax consequences of dividends are recognized either in profit or loss, other comprehensive income (OCI) or equity, consistently with the transactions that generated the distributable profits. This requirement applies to all income tax consequences of dividends, such as withholding taxes.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2019 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.
- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides a new definition of a "business" which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, 'an integrated set of activities and assets' must now include 'an input and a substantive process that

together significantly contribute to the ability to create an output'. The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets

- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of “material” and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is “material” if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Deferred effectivity –

- Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28 - *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a conflicting provision under the two standards. It clarifies that a gain or loss shall be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Company. Additional disclosures will be included in the notes to financial statements, as applicable.

Insurance Contracts

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Classification of Insurance and Investment Contracts. The Company issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes the possibility of having to pay benefits on the occurrence of an insured event. The Company may also transfer insurance risk in insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur. Insurance contracts can also expose the insurer the financial risks. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index, or other variable. Investment contracts are financial instruments that do not transfer enough insurance risk to qualify as insurance contracts.

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 have expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Reinsurance. The Company cedes insurance risk in the normal course of business. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

Reinsurance assets are reviewed for impairment at each end of the reporting period or more frequently when an indication of impairment arises. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amounts due under the terms of the contract and that this can be measured reliably. If such evidence exists, impairment loss is recognized in profit or loss.

Premiums and claims on assumed reinsurance are recognized in profit or loss 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 reinsurance contract. Reinsurance recoverable on paid losses on businesses ceded is offset against insurance payable to reinsurers which is customary in the industry.

Insurance Contract Liabilities

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

Provision for Claims Reported. Liabilities for unpaid claims and losses and claim adjustment expenses relating to insurance contracts are accrued when insured events occur and are recognized as part of "Insurance contract liabilities" account in the statement of financial position. The liability is derecognized when the contract is discharged or cancelled.

The liabilities for claims are based on the estimated ultimate cost of settling the claims. The method of determining the expected ultimate cost of claims reported at reporting date are continually reviewed and updated. Changes in estimates of claim costs resulting from continuous review process and difference between estimates and payments for claims are recognized as income or expense in the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in profit or loss in the period the recoveries are determined. Recoverable amounts from reinsurers are presented as part of "Insurance receivables" account in the statement of financial position.

Incurred but not Reported (IBNR) Claims. IBNR claims is based on the estimated ultimate cost of all claims incurred but not reported at the end of the reporting period and recognized as part of "Insurance contract liabilities" account in the statement of financial position. Delays can be experienced in the notification and settlement of certain types of claims, therefore, it is the ultimate cost of which cannot be known with certainty at the end of the reporting period. This liability is not

discounted for the time value of money. The liability is derecognized when the contract is discharged, cancelled or has expired.

Reserved 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 and accounted for as "Reserve for unearned premiums" in the statement of financial position. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. "Net change in the reserve for unearned premiums – net of change in deferred reinsurance premiums" account is recognized in profit or loss 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.

The related reinsurance premium ceded that pertains to the unexpired periods at end of the reporting period are accounted for as "Deferred reinsurance premiums" account in the statement of financial position. The net changes in deferred reinsurance premiums between each end of reporting period are recognized as part of "Net change in the reserve for unearned premiums – net of change in deferred reinsurance premiums account in profit or loss.

Liability Adequacy Test. At each reporting date, liability adequacy test is performed, to ensure adequacy of insurance contract liabilities, net of deferred acquisition costs. The test considers current best estimates of future cash flows, claims handling cost and policy administrative expenses. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy arising from the test is immediately charged in profit or loss by establishing an unexpired risk provision for losses.

Losses and Claims – net. Underwriting expenses consist of benefits and claims paid to policyholders, and changes in the valuation of insurance contract liabilities, except for change in the reserve for unearned premiums. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Financial Assets and Liabilities

The Company applied the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*, issued in September 2016. The temporary exemption permits entities whose activities are predominantly connected with insurance to continue applying PAS 39 rather than PFRS 9 until the effectivity of the new insurance standards beginning January 1, 2023.

Based on the assessment made by the Management, the Company qualifies for the deferral of application of PFRS 9 since its activities are predominantly connected with insurance. Accordingly, the Company deferred the adoption of PFRS 9 and has continued to apply PAS 39.

To comply with the disclosure requirements of the amendments to PFRS 4, the table below presents the comparison of the classification of the Company's financial assets as at December 31, 2019 under PAS 39 and PFRS 9. The carrying amounts of these financial assets under PAS 39 remain unchanged under PFRS 9.

Financial Assets	Classification under PAS 39	Classification under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost
Short-term investments	Loans and receivables	Financial assets at amortized cost
Insurance receivables	Loans and receivables	Financial assets at amortized cost
HTM investments	HTM investments	Financial assets at amortized cost
AFS financial assets	AFS financial assets	Financial assets at fair value through other comprehensive income (FVOCI)

Date of Recognition. The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at Fair Value through Profit or Loss (FVPL), includes transaction cost.

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

The Company classifies its financial assets into the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition, and where allowed and appropriate, re-evaluates the designation at each reporting date.

The Company has no financial assets and liabilities at FVPL as at December 31, 2019 and 2018.

AFS Investments. AFS investments are nonderivative financial assets that are either designated in this category or do not qualify to be classified as financial assets at FVPL, HTM investments or loans and receivables. Financial assets may be designated at initial recognition as AFS investments if these are purchased indefinitely and may be sold in response to liquidity requirements or change in market conditions.

After the initial measurement, AFS investments are carried at fair value in the statement of financial position. Changes in the fair value of AFS investments are reported as part of OCI and accounted for in equity under "Cumulative fair value changes on AFS financial assets" account, until the investment is derecognized or the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of unobserved inputs such as in case of unquoted equity instruments, these financial assets are allowed to be carried as cost less impairment, if any.

Dividends earned on holding AFS financial assets are recognized in the profit or loss when the right to receive payment has been established. The loss arising from impairment of such securities is recognized as impairment loss in profit or loss.

When AFS financial assets are derecognized, the cumulative gain or loss previously recognized in OCI and previously reported in equity is transferred to profit or loss. Where the Company holds more than one investment in the same security, these are deemed to be disposed of on a weighted average basis.

AFS investments are included in current assets if it is expected to be realized or disposed of within 12 months from the end of the reporting year. Otherwise, these are classified as noncurrent assets.

As at December 31, 2019 (and 2018), the Company's AFS financial assets consist of quoted and unquoted equity securities (see Note 11).

HTM Investments. HTM investments are nonderivative financial assets that are quoted in the market, with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. HTM investments are subsequently measured at amortized cost using the effective interest 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 (EIR). The amortization is included as part of "Interest income" lodged in "Investment and other income (loss)" account in the statement of comprehensive income. Gains and losses are recognized in profit or loss when the HTM investments are derecognized. Any impairment loss is recognized in profit or loss.

Where the Company sells or reclassifies other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified at fair value as AFS financial assets. The Company would then be unable to categorize financial instruments as HTM investments for the next two (2) years in the financial statements.

As at December 31, 2019 (and 2018), the Company's HTM investments consist of investments in government and corporate debt securities (see Note 12).

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments 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 designated as financial assets at FVPL, AFS financial assets or HTM investments.

After initial measurement, loans and receivables are carried at amortized cost using the effective interest 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 (EIR). Loans and receivables that are perpetual and that have either a fixed or a market-based variable rate of interest are measured at cost. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

This category includes cash and cash equivalents, short-term investments, insurance receivables, and employee receivables, accrued interest receivables, dividend receivable and security deposits included under "Other current assets" account (see Notes 5, 6, 7 and 10).

Cash includes cash on hand and in banks. Cash equivalents pertain to short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value which include short-term time deposits. Cash and cash equivalents are measured at face amount.

Short-term investments are placements on time deposits and other money market instruments with original maturities of more than three months but less than one year.

Insurance receivables are recognized on policy inception dates and measured on initial recognition at fair value of consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost less any allowance for impairment. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment losses are recognized in profit or loss.

Loans and receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

Other Financial Liabilities. Financial liabilities which are not held for trading or are not designated at FVPL are classified as financial liabilities carried at amortized cost 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 settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Other financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, 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. Gains and losses are recognized in profit or loss when the liabilities are derecognized and through the amortization process.

This category includes claims payable under "Insurance contract liabilities" account, insurance payables, accounts payable and accrued expenses (excluding payables to regulatory agencies) (see Notes 15, 16 and 17).

Offsetting of Financial Assets and Liabilities

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 intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, thus the related financial assets and financial liabilities are presented on a gross basis in the statement of financial position.

Impairment of Financial Assets

The Company assesses at each reporting date 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 have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization.

Loans and Receivables. 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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If an asset has a variable rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The carrying amount of the asset shall be reduced directly or through the use of an allowance account. The amount of loss shall be recognized in profit or loss.

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 reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Where loans and receivables have been ascertained to be worthless, the related amount is written off against the corresponding allowance for impairment.

AFS Financial Assets Carried at Fair Value. In case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. When there is evidence of impairment, the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from OCI and recognized in profit or loss. Recovery of impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in OCI.

The Company treats “significant” generally as 20% or more and “prolonged” as greater than six (6) months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.

For a partial disposal, a proportionate share of the fair value gains and losses previously recognized in OCI is reclassified from equity to profit or loss. Such gains and losses include all fair value changes until the date of disposal.

In the case of debt instrument classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost.

Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Interest income" account in profit or loss. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

AFS Financial Assets Carried at Cost. If there is an objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be measured reliably, the amount of the loss is measured as the difference between that 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.

HTM Investments. The Company assesses at each reporting date whether there is any objective evidence that its HTM investments are impaired. Objective evidence that a financial asset is impaired includes observable data that come to the attention of the holder of the asset about the following loss events:

- a. Significant financial difficulty of the issuer or obligor;
- b. Breach of contract, such as a default or delinquency in interest or principal payments;
- c. The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- d. It becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Derecognition of Financial Assets and Financial Liabilities

Financial Asset. A financial asset, or where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when:

- The right to receive cash flows from the asset has expired;
- The Company retains the right to receive cash flows from the financial 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 financial asset and either has transferred substantially all the risks and rewards incidental to ownership of the financial asset; or
- Has neither transferred nor retained substantially all the risks and rewards incidental to ownership of the financial asset, but has transferred control of the financial asset.

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

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

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Company could raise debt with similar terms and conditions in the market. The difference between the carrying amount of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Other Current Assets

Other current assets pertain to other resources controlled by the Company as a result of past events. These are recognized in the financial statements when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. This account includes loss reserve withheld by ceding companies, excess tax credits, input value-added tax (VAT) and prepayments, among others, which are stated at face value.

Loss Reserve Withheld by Ceding Companies. Loss reserve withheld by ceding companies pertains to a portion of the reinsurance premium withheld by ceding companies under treaty agreements as reserve for losses.

Excess tax credits. Excess tax credits pertain to prepaid taxes and CWT. Prepaid taxes are taxes paid in advance and recorded as asset before these are utilized and is measured at the amount of cash paid. This will be applied as payment against income taxes in the following year. CWT pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. CWT is initially recorded at cost under "Other current assets" in the statement of financial position. At each end of the tax reporting deadline, CWT may either be offset against future income tax payable or be claimed as a refund from the taxation authorities at the option of the Company.

VAT. Revenue, expenses and assets are recognized, net of the amount of VAT, except:

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

The net amount of input VAT recoverable from the taxation authority is included as part of "Other current assets" account in the statement of financial position.

Deferred output VAT pertains to output VAT on uncollected premiums, which is due to taxation authority upon receipt from customers. Deferred output VAT that are expected to be paid in no more than 12 months after the financial reporting year are classified as current liabilities, otherwise, these are classified as noncurrent liabilities."

Prepayments. These are expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to expense as these are consumed in operations or expire with the passage of time.

Prepayments are classified in the statement of financial position as current asset when it is expected to be realized for no more than 12 months after the financial year. Otherwise, prepayments are classified as noncurrent assets.

Investment Properties

Investment properties pertain to parcels of land which are held to earn rentals or for capital appreciation or for both.

Investment properties are measured initially at cost. Cost includes the acquisition cost of the investment properties plus incidental costs. Replacement costs are capitalized if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects the prevailing market conditions as at report date. Gains or losses resulting from changes in fair value of the investment properties are recognized in profit or loss in the period in which they arise. The fair value of investment properties are based on property appraisal reports determined by appraisers on the basis of market value approach.

Expenditures incurred after the investment properties have put into operations, such as repairs and maintenance costs, are charged to operations in the year in which the costs are incurred.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sell.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment losses.

The initial cost of property and equipment comprises its purchase price, including import duties and nonrefundable taxes, and any direct costs attributable in bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the assets have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year the cost 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 additional costs of the assets.

Depreciation and amortization of property and equipment is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Asset type	Number of Years
Building and improvements	30
Electronic data processing (EDP) equipment	5
Transportation equipment	5
Furniture, fixtures and office equipment	5
Leasehold improvements	3 or lease term, whichever is shorter

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

Depreciation and amortization commence when the property and equipment is in its location or condition capable of being operated in the manner intended by management. Depreciation and amortization ceases at the earlier of the date that the property and equipment is classified as held-for-sale and the date the property and equipment is derecognized.

Fully depreciated or amortized property and equipment are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those property and equipment.

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or 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 profit or loss in the year the property and equipment is derecognized.

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

Impairment of Nonfinancial Assets

At each reporting date, nonfinancial assets are reviewed to determine whether there is any indication that these nonfinancial assets may be impaired. If there is an indication of possible impairment, the recoverable amount of any asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss. The recoverable amount of an asset is the greater of its value in use or its fair value less cost to sell. Value in use is the present value of future cash flows expected to be derived from an asset. 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 assessment of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

Equity

Issued Capital Stock. Issued capital stock is composed of common shares which measured at par value for all shares issued. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. Unpaid subscriptions are recognized as a reduction of subscribed capital stock.

APIC. APIC represents premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of share are deducted from APIC. In the event that the APIC balance is exhausted as a result of redemption, the retained earnings account is reduced by redemptions in excess of par value.

Contributed Surplus. Contributed surplus represent contributions to cover any deficiency in the net worth requirement under the Insurance Code and can be withdrawn upon the approval of the IC.

Deficit. Deficit represents the cumulative balance of the Company's net income and losses.

Other Components of Equity. Other components of equity comprise of cumulative fair value changes on AFS financial assets and cumulative remeasurement loss on net retirement assets that were not recognized in profit or loss. These income and expenses, when earned or incurred for the period, are classified as OCI and presented after net income in the statement of comprehensive income.

Cumulative fair value changes of AFS financial assets is comprised of accumulated gains and losses arising from the revaluation of AFS financial assets.

Cumulative remeasurement loss on net retirement assets is comprised of accumulated actuarial gains or losses due to experience and demographic assumptions as well as gains or losses in the retirement fund.

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Company perform its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The following specific recognition criteria must also be met before revenue is recognized.

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

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of premiums written that relate to the unexpired periods of the policies at reporting date are accounted for as reserve for unearned premiums and included as part of "insurance contract liabilities" in the statement of financial position. The net changes in these accounts during the year are recognized in profit or loss for the year.

Insurance receivables are recognized when due and measured at the original invoice amount, less allowance for uncollectible amount. Insurance receivables are derecognized following the derecognition criteria of financial assets.

Reinsurance Commission Income. Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date is presented as "Deferred reinsurance commissions" in the statement of financial position.

Interest Income. Interest income is recognized as it accrues, taking into account the effective yield on the asset.

Rent Income. Rent income is recognized as earned on a straight-line basis over the lease term.

Other Income. Other income is recognized when the earning process is complete and the flow of economic benefit is reasonably assured. Other income includes gain on sale of investment properties, AFS financial assets, and property and equipment, dividend income, rent income, among others, which is recognized at point in time, and is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty.

Expense Recognition

Expenses are recognized in the statement of comprehensive income upon consumption of goods, utilization of services or at the date these are incurred.

Losses and Claims. Losses and claims consists of benefits and claims to policyholders, which includes the valuation of insurance contract liabilities, except for gross changes in the provision for premiums which are recorded in underwriting income. It further includes internal and external handling costs that are directly related to the processing and settlement of claims. General insurance claims are recorded on the basis of notifications received.

Net insurance benefits and claims represent gross insurance contract benefits and claims and gross change in insurance contract liabilities less reinsurer's share.

Commission Expense. Commissions are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as "Deferred acquisition costs" in the asset section of the statement of financial position.

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

Operating Expenses. Operating expenses constitute costs of administrating the business and costs incurred in advertising and promotions. These are expensed when incurred.

Interest Expense. Interest expenses are recognized as expense when incurred.

Employee Benefits

Short-term Benefits. The Company provides short-term benefits to its employees in the form of basic salary, 13th month pay, bonuses, leave credits, employer's share on government contributions and other short-term benefits.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. The Company has a funded, noncontributory defined benefit plan covering all qualified employees. The retirement expense is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Company recognizes service costs, comprising of current service costs, past service costs, and net interest expense or income in profit or loss. Net interest is calculated by applying the discount rate to the net retirement liability or plan asset. Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Company recognizes restructuring related costs.

Remeasurements, comprising actuarial gains and losses and return on plan assets, are recognized immediately in OCI in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The net retirement liability is the aggregate of the present value of the retirement liability reduced by the fair value of plan assets on which the liabilities are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Plan assets are assets that are held in trust and managed by a trustee bank. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. The fair value of the plan assets is based on the 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.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

Related Party Transactions and Relationships

Related party transactions consist of transfers of resources, services or obligations between the Company and its related parties, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes (a) individuals who, owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company (b) associates and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

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

Leases

a. Accounting policies prior to January 1, 2019

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date and 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:

- i. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- ii. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

- iii. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- iv. there is a substantial change to the asset.

When a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to reassessment for scenarios (i), (iii) or (iv) and at the date of renewal or extension period for scenario (ii).

The Company as a Lessee. Leases where the lessor retains substantially all the risks and rewards incidental to ownership of the leased asset are classified as operating lease. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The Company as a Lessor. Leases where the Company does not transfer substantially all the risks and benefits incidental to ownership of the leased assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and amortized over the lease term on the same basis as the rental income.

b. Accounting policies beginning January 1, 2019

The Company assesses whether the contracts is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Company assesses whether, throughout the period of use, it has both of the following:

- i. the right to obtain substantially all of the economic benefits from the use of the identified asset; and
- ii. the right to direct the use of the identified asset.

If the Company has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

The Company also assesses whether a contract contains a lease for each potential separate lease component.

The Company as Lessee. At the commencement date, the Company recognizes ROU assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis. The Company availed exemption for short-term leases with term of 12 months or less. Accordingly, lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Foreign Currency-Denominated Transactions

The Company determines its own functional currency and items included in the financial statements are measured using that functional currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of each reporting date. All differences are taken to statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial

transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was measured.

For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses in the year such are realized.

Income Tax

Current Tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the reporting date.

Deferred Tax. Deferred tax is provided, 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 tax is recognized in statement of comprehensive income except to the extent of items recognized as OCI or items directly recognized in equity.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred tax assets to be recovered.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

Final Tax. Interest income from cash in banks and debt securities, which are subject to final withholding tax, is presented at gross amounts, while taxes paid or withheld are recognized as final tax under "Provision for Income Tax" account in the statement of comprehensive income.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

Contingencies

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

Events after the Reporting Date

Events after the reporting date that provide additional information about the Company's financial position as at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements requires management to exercise judgments, make estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date. Actual results could differ from these estimates and assumptions used, and the effect of any change in estimates will be adjusted in the financial statements when these become reasonably determinable.

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

The Company believes the following represent a summary of these significant judgments, estimates, assumptions and related impact and associated risks in the financial statements.

Judgments

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

Classifying Financial Instruments. The Company classifies a financial instrument, on initial recognition as a financial asset, a financial liability or equity in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

The Company's financial assets include cash and cash equivalents, short-term investments, insurance receivables, HTM investments, AFS investments and other loans and receivables included under "Other current assets" account. The Company's financial liabilities include claims payable under "Insurance contract liabilities" account, insurance payables, accounts payable and accrued expenses (excluding payables to regulatory agencies).

Assessing the Distinction Between Investment Properties and Property and Equipment. The Company determines whether a property qualifies as investment property or property and equipment. In making its judgment, the Company considers whether the property is held for administrative purposes 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.

Classifying Leases. The Company classifies leases in accordance with the substance of the contractual agreement and the transfer of risks and rewards incidental to ownership of the leased asset. Leases, where the management has determined that the risks and rewards incidental to ownership related to the leased asset are transferred to the lessee, are classified as finance lease. On the other hand, leases entered into by the Company, where management has determined that the risks and rewards incidental to ownership of the leased asset are retained with the Company, are accounted for as operating lease.

- *Operating Lease - The Company as a Lessor.* The Company has entered into contracts of lease with third parties and has determined that it retains all the significant risks and rewards incidental to ownership of the leased properties. The leases are therefore accounted for as operating leases.
- *Operating Lease - The Company as a Lessee.* The Company has various operating lease agreements covering its branch offices and warehouses nationwide. The Company has determined that the risks and rewards incidental to ownership of leased asset are retained by the lessor. Accordingly, the lease agreement is accounted for as an operating lease.

Classifying Leases beginning January 1, 2019. The Company, as a lessee, has entered into commercial property leases for its branch offices. The Company availed of the exemption for short-term leases with term of 12 months or less. Accordingly, lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Rent expense amounted to ₱0.9 million in 2019 (₱1.0 million in 2018) (see Note 22).

Estimates and Assumptions

The key estimates and 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 in the succeeding paragraphs.

Estimating Claims Liability Arising from Insurance Contracts. For non-life insurance contracts, estimates have been made both for the expected ultimate costs 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 incurred chain ladder/development approach, paid chain ladder/development method, the Bornheutter-Ferguson incurred approach and the Bornheutter-Ferguson paid approach. At each reporting date, prior year claims estimates are reassessed for adequacy and changed made are charged to provision.

The main assumptions underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. Historical claims development is mainly analyzed by accident years, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserve at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation and loss ratio. Instead, the assumptions used are those implicit in the historic claims development data on which projections are based.

The total carrying value of provision for outstanding claims and IBNR amounted to ₱160.6 million as at December 31, 2019 (₱110.0 million as at December 31, 2018) (see Note 15).

Determining the Fair Value of AFS Financial Assets. PFRS requires that certain financial instruments be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence, the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial instruments would directly affect the statement of comprehensive income and the statement of changes in equity.

The carrying amount of AFS financial assets measured at fair value amounted to ₱148.7 million as at December 31, 2019 (₱151.8 million as at December 31, 2018) (see Note 11).

Assessing the Impairment Losses on AFS Financial Assets. The Company treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" and "prolonged" requires judgment. The Company treats "significant" generally as 20% or more of the original cost of investment, and "prolonged," as greater than six months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows.

No impairment loss was recognized in 2019 (and 2018). The carrying amount of AFS investments amounted to ₱148.7 million as at December 31, 2019 (₱151.8 million as at December 31, 2018) (see Note 11).

Assessing the Impairment Losses on HTM Investments. The Company determines impairment of HTM investments based on its evaluation of the presence of objective evidence of impairment which includes observable data that comes to the attention of the Company such as but not limited to significant financial difficulty of the counterparty of the probability that the borrower will enter bankruptcy or other financial re-organization. In addition to the individual impairment assessment which takes into consideration the credit risk characteristics such as borrower type, payment history and past due status.

No impairment loss was recognized in 2019 (and 2018). The carrying amount of HTM investments amounted to ₱281.6 million as at December 31, 2019 (₱282.0 million as at December 31, 2018) (see Note 12).

Assessing the Impairment Losses on Receivables. The Company maintains an allowance for impairment losses on receivables at a level considered adequate to provide for potential losses. The level of this allowance is determined by management using specific and collective impairment tests. The Company performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses.

The Company assesses specifically the significant receivables based on factors that affect its collectability. These factors include, but are not limited to, the length of the Company's relationship with the customer, the counterparties payment behavior and known market factors. The Company identifies and provides for specific accounts that are doubtful of collection and reviews the age and status of the remaining receivables and establishes a provision considering, among others, historical collection and write-off experience.

The Company conducts impairment tests at a collective level for receivables that are not individually significant and for those that were already specifically tested but with no impairment losses determined. For collective impairment testing purposes, receivables are grouped according to their risks characteristics. The loss rate applied to each risk group to compute for the required allowance for impairment losses is determined based on the risk group's default or past due migration and loss history. Management's judgment is required in choosing the risk characteristics used in grouping the receivables as well as in selecting the periods over which the past due migration and loss history shall be obtained. In computing the loss rates for each group, management also makes certain assumptions over the available data on past due migration and loss history of the risk group that these reflect current relevant economic circumstances. Adjustments on the loss rates are made as deemed necessary by management to ensure that the loss rates properly reflect the incurred loss on the risks groups as of reporting date.

The amount and timing of recorded expenses for any year would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

Provision for impairment losses recognized on insurance receivables amounted to ₱20.7 million in 2019 (₱10.9 million in 2018). The carrying amount of insurance receivables amounted to ₱58.9 million as at December 31, 2019 (₱117.9 million as at December 31, 2018). Allowance for impairment losses amounted to ₱69.8 million as at December 31, 2019 (₱49.1 million as at December 31, 2018) (see Note 7).

No provision for impairment loss on employee receivables was recognized in 2019 (and 2018). The carrying amount of employee receivables amounted to ₱4.4 million as at December 31, 2019 (₱5.7 million as at December 31, 2018). Allowance for impairment losses amounted to ₱3.2 million as at December 31, 2019 (₱3.2 million as at December 31, 2018) (see Note 10).

Determining the Fair Value of Investment Properties. Investment properties are carried at fair value, which has been determined based on arm's length transactions as at the reporting period, as certified by the an independent appraiser using market value approach.

The fair value of investment properties amounted to ₱5.8 million as at December 31, 2019 (₱8.2 million as at December 31, 2018) (see Note 13).

Estimating the Useful Lives of Property and Equipment. The Company estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental changes and anticipated use of the property and equipment.

There were no changes in the useful lives of property and equipment in 2019 (and 2018). The carrying amount of property and equipment amounted to ₱15.7 million as at December 31, 2019 (₱19.3 million as at December 31, 2018) (see Note 14).

Assessing the Impairment Losses on Property and Equipment. The Company assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The factors that the Company considered important which could trigger an impairment review include the following:

- Significant changes or planned changes in the use of the assets;
- Significant under-performance of the business; and
- Significant negative industry or economic trends.

Whenever the carrying amount of property and equipment exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. 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 a measurement date. The estimated cash flows are projected using growth rate based on historical experience and business plans and are discounted using pretax discount rate that reflects the current assessment of the time value of money and the risks specific to the asset. Recoverable amount is estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

There were no impairment indicators on property and equipment in 2019 (and 2018). Accordingly, no impairment loss was recognized. The carrying amount of property and equipment amounted to ₱15.7 million as at December 31, 2019 (₱19.3 million as at December 31, 2018) (see Note 14).

Determining the Net Retirement Asset and Retirement Expense. The determination of the net retirement asset and retirement expense is dependent on management's selection of certain assumptions used by actuaries in calculating such amounts.

The assumptions for determining retirement expense are described in the Note 23 and include, among others, discount rate and expected rate of salary increase. Actual results that differ from certain assumptions are accumulated and are recognized as part of equity. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the net retirement asset.

Retirement expense amounted to ₱1.7 million in 2019 (₱2.5 million in 2018). Net retirement asset amounted to ₱2.8 million as at December 31, 2019 (₱2.8 million as at December 31, 2018) (see Note 23).

Assessing the Realizability of Net Deferred Tax Assets. The Company reviews the carrying amounts of net deferred tax assets at each financial reporting date and reduces net deferred tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be utilized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Company's deferred tax assets amounted to ₱10.9 million as at December 31, 2019 (₱33.8 million as at December 31, 2018) (see Note 24).

Assessing Contingencies. There are certain claims filed by certain parties against the Company, which are either pending decision by the proper judicial bodies or under negotiation. Estimates of probable costs for the resolution of these claims have been developed in consultation with outside counsel handling the defense in these matters and are based upon analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on its statement of financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the Company's strategies relating to these proceedings.

Provision for claims reported and provision for contingency are disclosed in Notes 15 and 17 to the financial statements, respectively.

4. Prior Period Adjustments

The Company's 2018 financial statements were restated to reflect the following reclassification adjustments:

- Offsetting of premium receivables and accounts payable to a third party co-insurer amounting to P18.5 million (see Note 7), where the Company, as the lead insurer, remits the co-insurer's share of the premium upon collection from policyholders; and
- Change in presentation of subscriptions receivable amounting to P47.3 million from an asset account to an equity account as a reduction of subscribed capital.

5. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	P27,000	P112,000
Cash in banks	67,391,294	68,106,219
Cash equivalents	181,275,399	140,818,579
	P248,693,693	P209,036,798

Cash in banks consist of peso and foreign currency-denominated deposits, under current and savings accounts, which earn interest at the prevailing bank deposit rates.

Cash equivalents pertain to short-term placements made in varying periods with maturity of up to 90 days, depending on the immediate cash requirements of the Company, and earn interest ranging from 1.38% to 5.38% in 2019 (0.25% to 4.50% in 2018).

Interest income consists of:

	Note	2019	2018
Cash in banks and cash equivalents		₱9,236,388	₱4,094,097
Short-term investments	6	2,995,883	1,200,302
Held-to-maturity investments		13,048,976	10,971,076
	21	₱25,281,247	₱16,265,475

6. Short-term Investments

Short-term investments amounting to ₱31.0 million as at December 31, 2019 (₱91.0 million as at December 31, 2018) are investments with maturity periods of more than three months but less than one year with interest rates of 2.74% to 7.00% in 2019 (2.12% to 6.50% in 2018).

Interest income earned on short-term investments amounted to ₱3.0 million in 2019 (₱1.2 million in 2018) (see Note 5).

7. Insurance Receivables

This account consists of:

	2019	2018 (As restated - Note 4)
Premium receivables	₱70,405,426	₱122,144,907
Reinsurance recoverable on unpaid losses	32,250,827	13,160,458
Reinsurance recoverable on paid losses	16,606,253	27,318,184
Premiums due from ceding companies	9,426,287	4,342,333
	128,688,793	166,965,882
Less allowance for impairment losses	(69,809,753)	(49,084,459)
	₱58,879,040	₱117,881,423

Premium receivables arise from unpaid premiums from policyholders and intermediaries. Normal credit term of these receivables is 30 to 90 days.

Reinsurance recoverable on unpaid losses represents the share of reinsurance companies for the unpaid losses and loss adjustments expenses, net of salvage or recoveries. This also includes the reinsurers' share on claims in respect of claims events which have occurred but have not been reported to the Company as of the reporting date.

Reinsurance recoverable on paid losses represents the share of reinsurance companies for the claims paid by the Company to the insured.

Premiums due from ceding companies are premiums receivable for assumed business from other insurance and reinsurance companies.

Movements in allowance for impairment losses on insurance receivables follow:

		2019			
	Note	Premiums Recoverable	Premiums due from Ceding Companies	Reinsurance Recoverable	TOTAL
Balance at beginning of year		P48,347,949	P575,112	P161,398	P49,084,459
Provisions during the year	22	20,725,294	—	—	20,725,294
Balance at end of year		P69,073,243	P575,112	P161,398	P69,809,753
Individually impaired		P43,522,016	P—	P161,398	P43,683,414
Collectively impaired		25,551,227	575,112	—	26,126,339
		P69,073,243	P575,112	P161,398	P69,809,753

		2018			
	Note	Premiums Recoverable	Premiums due from Ceding Companies	Reinsurance Recoverable	TOTAL
Balance at beginning of year		P37,489,276	P575,112	P965,144	P39,029,532
Provisions during the year	22	10,858,673	—	—	10,858,673
Write-off		—	—	(803,746)	(803,746)
Balance at end of year		P48,347,949	P575,112	P161,398	P49,084,459
Individually impaired		P22,796,722	P—	P161,398	P22,958,120
Collectively impaired		25,551,227	575,112	—	26,126,339
		P48,347,949	P575,112	P161,398	P49,084,459

8. Deferred Reinsurance Premiums

Deferred reinsurance premiums pertain to the unexpired portion of insurance premiums ceded out as at reporting date. The details and movements in this account are as follows:

	Note	2019	2018
Balance at beginning of year		P14,020,808	P11,252,161
Premiums ceded for the year		11,829,587	34,250,513
Premiums ceded related to expired periods	22	(23,926,902)	(31,481,866)
Increase (decrease) in deferred reinsurance premium		(12,097,315)	2,768,647
Balance at end of year		P1,923,493	P14,020,808

9. Deferred Acquisition Costs

The movements of deferred acquisition costs are as follows:

	2019	2018
Balance at beginning of year	P30,733,753	P32,934,217
Cost deferred during the year	19,814,941	48,920,328
Commission expense for the year	(38,767,991)	(51,120,792)
Balance at end of year	P11,780,703	P30,733,753

10. Other Current Assets

This account consists of:

	2019	2018
Loss reserve withheld by ceding companies	₱4,894,532	₱2,415,897
Employee receivables	4,416,664	5,678,963
Excess tax credits	3,331,507	3,935,449
Accrued interest receivables	2,801,865	2,989,812
Input VAT	127,572	3,265,952
Dividend receivable	116,250	116,250
Security deposits	48,439	59,546
Prepayments	–	91,997
Others	1,509,330	7,236,702
	17,246,159	25,790,568
Allowance for impairment loss on employee receivables	(3,150,355)	(3,150,355)
	₱14,095,804	₱22,640,213

Loss reserve withheld by ceding companies pertains to a portion of the reinsurance premium withheld by ceding companies under treaty agreements as reserve for losses.

Employee receivables consist of advances and loan offered to officers, employees, agents and brokers.

Accrued interest receivables pertains to interest income from cash and cash equivalents, short-term investments and HTM investments already earned by the Company, but not yet received as at reporting date.

Others include uncollected proceeds from sale of investments amounting to ₱0.3 million and ₱6.0 million as at December 31, 2019 and 2018, respectively. Furthermore, others also include deferred input VAT, receivables from tenants and other intermediaries, and various deposits.

11. AFS Financial Assets

This account consists of:

	2019	2018
Quoted equity shares	₱149,211,730	₱152,975,015
Unquoted equity shares	7,500,000	7,500,000
	156,711,730	160,475,015
Allowance for impairment losses	(8,060,000)	(8,703,793)
	₱148,651,730	₱151,771,222

Unquoted equity shares, which are carried at cost, pertains to an investment in AFP Theater amounting to ₱7.5 million in 2019 (and 2018), which is fully provided with allowance for impairment losses.

The reconciliation of the carrying amounts of AFS financial assets is as follows:

	2019	2018
Balance at beginning of year	₱160,475,015	₱338,646,790
Acquisitions	922,936	12,596,470
Disposals	(10,702,759)	(196,385,391)
Write-off of AFS financial assets	(643,793)	–
Net change in FV of AFS financial assets	6,660,331	5,617,146
	156,711,730	160,475,015
Allowance for impairment loss	(8,060,000)	(8,703,793)
Balance at end of year	₱148,651,730	₱151,771,222

The movements of the allowance for impairment losses on AFS financial assets are as follows:

	2019	2018
Balance at beginning of year	(₱8,703,793)	(₱18,188,478)
Write-off of AFS financial assets	643,793	–
Reversal of impairment loss due to disposal of AFS financial assets	–	9,484,685
Balance at end of year	(₱8,060,000)	(₱8,703,793)

The balance and movements in the cumulative fair value changes on AFS financial assets are as follows:

	2019	2018
Balance at beginning of year	(₱5,894,668)	(₱11,511,814)
Change in fair value of AFS financial assets	6,720,238	10,660,379
Net change in fair value of AFS financial assets reclassified to profit or loss	(59,907)	(5,043,233)
Balance at end of year	₱765,663	(₱5,894,668)

The Company recognized a gain on sale of AFS financial assets amounting to ₱83,574 in 2019 (₱31.6 million loss on sale of AFS financial assets in 2018) (see Note 21).

Dividend income earned from these investments amounted to ₱2.5 million in 2019 (₱2.7 million in 2018) (see Note 21).

12. Held-to-Maturity Investments

This account consists of:

	2019	2018
Government debt securities	₱224,572,266	₱224,954,942
Corporate debt securities	57,000,000	57,000,000
	281,572,266	281,954,942
Less current portion	197,572,266	47,162,052
	₱84,000,000	₱234,792,890

The reconciliation of the carrying amounts of investments classified as HTM investments is as follows:

	2019	2018
Balance at beginning of year	₱281,954,942	₱248,381,421
Acquisitions	47,000,861	34,000,000
Maturities	(47,000,000)	–
Amortization of premium	(383,537)	(426,479)
Balance at end of year	₱281,572,266	₱281,954,942

In compliance with the capital investment requirement under Section 209 of the Amended Insurance Code, certain government securities earmarked as security for the benefit of policyholders and creditors of the Company are deposited with the Bureau of Treasury under the Registry of Scripless Securities System. As at December 31, 2019, the face value of these earmarked government debt securities amounted to ₱225.8 million (₱224.5 million as at December 31, 2018), while amortized cost amounted to ₱224.6 million (₱225.0 million as at December 31, 2018).

Interest earned from government securities amounted to ₱10.2 million in 2019 (₱7.9 million in 2018). On the other hand, corporate securities earned ₱2.9 million in the year 2019 (₱3.1 million in 2018). Related accrued interest receivable amounted to ₱1.7 million as at December 31, 2019 (₱1.7 million as at December 31, 2018).

The maturity profile of the HTM investments is as follows:

	2019	2018
Within one year	₱197,572,266	47,162,052
Two to five years	74,000,000	224,792,890
Beyond five years	10,000,000	10,000,000
	₱281,572,266	281,954,942

As at December 31, 2019 (and 2018), the Company has no HTM investments pledged as collateral.

13. Investment Properties

This account consists of:

	Note	2019	2018
Balance at beginning of year		₱8,240,000	₱4,944,000
Gain (loss) on revaluation	21	(2,472,000)	3,296,000
Balance at end of year		₱5,768,000	₱8,240,000

The fair values of the Company's investment properties have been determined by an independent appraiser using the Market Data Approach. In this approach, the value of the properties was based on the sales and listings of comparable property registered within the vicinity. The technique of this approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was done by establishing the differences between the subject property and those actual sales and listings regarded as comparable. The latest valuation of the investment properties was dated December 31, 2019.

The properties used as bases of comparison are situated in the same area where the investment properties are located taking into account the economic conditions prevailing at the time the valuations were made. The recurring fair value measurement for investment properties has been categorized as a level 2 fair value based on the inputs to the valuation technique used.

14. Property and Equipment

The movements of this account are as follows:

2019						
	Building and Improvements	EDP Equipment	Transportation Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱34,400,861	₱25,675,185	₱5,712,397	₱5,624,020	₱42,857	₱71,455,320
Additions		799,795	–	20,513	–	820,308
Disposals	(16,583)	(2,853,575)	(816,964)	(27,053)	(42,857)	(3,757,032)
Balance at end of year	34,384,278	23,621,405	4,895,433	5,617,480	–	68,518,596
Accumulated Depreciation and Amortization						
Balance at beginning of year	(21,139,080)	(21,481,460)	(4,581,158)	(4,902,693)	(26,191)	(52,130,582)
Depreciation and amortization	(1,885,798)	(1,746,239)	(554,494)	(237,659)	(16,666)	(4,440,856)
Disposals	1,058	2,836,171	816,964	6,763	42,857	3,703,813
Balance at end of year	(23,023,820)	(20,391,528)	(4,318,688)	(5,133,589)	–	(52,867,625)
	₱11,360,458	₱3,229,877	₱576,745	₱483,891	₱–	₱15,650,971

2018						
	Building and Improvements	EDP Equipment	Transportation Equipment	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱34,024,082	₱24,609,962	₱5,712,397	₱5,275,648	₱42,857	₱69,664,946
Additions	376,779	1,065,223	–	348,372	–	1,790,374
Balance at end of year	34,400,861	25,675,185	5,712,397	5,624,020	42,857	71,455,320
Accumulated Depreciation and Amortization						
Balance at beginning of year	(19,287,059)	(19,901,364)	(4,013,047)	(4,608,923)	(11,905)	(47,822,298)
Depreciation and amortization	(1,852,021)	(1,580,096)	(568,111)	(293,770)	(14,286)	(4,308,284)
Balance at end of year	(21,139,080)	(21,481,460)	(4,581,158)	(4,902,693)	(26,191)	(52,130,582)
	₱13,261,781	₱4,193,725	₱1,131,239	₱721,327	₱16,666	₱19,324,738

In 2019, the Company sold property and equipment with a carrying amount of ₱53,219 for a total consideration of the same amount. No gain or loss on disposal of property and equipment was recognized.

The cost of fully depreciated property and equipment still being used in operations amounted to ₱24.4 million as at December 31, 2019 (₱23.3 million as at December 31, 2018).

15. Insurance Contract Liabilities

This account consists of:

	2019			2018		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Provision for claims reported	₱128,530,334	₱26,558,827	₱101,971,507	₱68,337,405	₱4,823,344	₱63,514,061
Provision for IBNR claims	32,043,000	5,692,000	26,351,000	41,691,487	8,337,114	33,354,373
	₱160,573,334	₱32,250,827	₱128,322,507	₱110,028,892	₱13,160,458	₱96,868,434

Provision for claims reported pertains to estimated amount of reported claims which have not yet been settled as at validation date and expenses for setting those claims. In 2018, the Company adopted certain provisions in CL No. 2018-18, *Valuation Standards for Non-life Insurance Reserves* issued by the IC specifically the recognition of margin for adverse deviation on its IBNR claims. This will bring the IBNR claims to 75% percentile level of sufficiency.

The movements in losses and claims payable are as follows:

	2019			2018		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Balance at beginning of year	₱110,028,892	₱13,160,458	₱96,868,434	₱125,511,797	₱51,737,079	₱73,774,718
Claims incurred	121,615,485	14,828,272	106,787,213	57,440,608	(43,396,890)	100,837,498
Claims paid - net of recoveries	(64,067,670)	(1,429,903)	(62,637,767)	(77,722,247)	(3,516,845)	(74,205,402)
Changes in IBNR	(7,003,373)	5,692,000	(12,695,373)	4,798,734	8,337,114	(3,538,380)
Balance at end of year	₱160,573,334	₱32,250,827	₱128,322,507	₱110,028,892	₱13,160,458	₱96,868,434

16. Insurance Payables

This account consists of:

	2019	2018
Due to reinsurers	₱8,071,916	₱14,829,990
Funds held for reinsurers	1,141,850	1,141,850
	₱9,213,766	₱15,971,840

Due to reinsurers pertains to reinsurance premiums payable by the Company to all its treaty and facultative reinsurers which is expected to be settled within one year or less.

17. Accounts and Other Payables

This account consists of:

	Note	2019	2018
Commission payable		P28,052,809	P31,481,284
Accounts payable		15,500,341	21,667,390
Deferred output VAT		12,488,952	16,803,728
Provision for contingency	27	10,544,122	10,544,122
Payable to regulatory agencies		4,300,666	12,730,691
Accrued expenses		1,027,674	9,383,717
Deposits in trust		636,557	2,406,557
Claims fund payable		92,933	92,933
		P72,644,054	P105,110,422

Commission payable pertains to the outstanding balance of commissions due to agents and brokers.

Accounts payable consists of unidentified deposits awaiting application to the relevant premium receivables and other payables relating to micro-memorial and micro-medicare.

Deferred output VAT pertains to output VAT on uncollected premiums which is due upon collection from policyholders.

Payable to regulatory agencies pertain to other taxes payable which consists primarily of documentary stamp tax, expanded withholding tax, local government tax, output and deferred value-added tax (VAT) and contributions to the governments [e.g. Social Security System (SSS), PhilHealth and Pag-ibig].

Accrued expenses pertain to accrual of utilities, services and other employee benefits.

All liabilities are expected to be settled within 12 months after the reporting date.

18. Reserve for Unearned Premiums

The details and movements of this account are as follows:

	2019	2018
Balance at beginning of year	P140,828,437	P130,393,190
New policies written during the year	101,425,593	274,015,187
Premiums earned during the year	(201,495,707)	(263,579,940)
Increase (decrease) in reserve for unearned premium	(100,070,114)	10,435,247
Balance at end of year	P40,758,323	P140,828,437

Details of net earned premiums on insurance contracts are as follows:

2019					
	Direct Business	Assumed	Gross Premiums	Ceded (Note 8)	Net Premiums Earned
Premiums written	₱80,556,123	₱20,869,470	₱101,425,593	(₱11,829,587)	₱89,596,006
Increase (decrease) in reserve for unearned premiums- net	98,681,869	1,388,245	100,070,114	(12,097,315)	87,972,799
	₱179,237,992	₱22,257,715	₱201,495,707	(₱23,926,902)	₱177,568,805

2018					
	Direct Business	Assumed	Gross Premiums	Ceded (Note 8)	Net Premiums Earned
Premiums written	₱249,403,370	₱24,611,817	₱274,015,187	(₱34,250,513)	₱239,764,674
Increase (decrease) in reserve for unearned premiums- net	(10,968,230)	532,983	(10,435,247)	2,768,647	(7,666,600)
	₱238,435,140	₱25,144,800	₱263,579,940	(₱31,481,866)	₱232,098,074

19. Deferred Reinsurance Commissions

The movements of this account are as follows:

	2019	2018
Balance at beginning of year	₱2,875,683	₱1,925,705
Reinsurance commissions for the year	1,937,754	7,092,512
Reinsurance commissions earned for the year	(4,475,479)	(6,142,534)
Balance at end of year	₱337,958	₱2,875,683

20. Underwriting Expenses

This account consists of:

	2019	2018
Gross insurance contract claims incurred	₱121,615,485	₱57,440,608
Changes in IBNR claims	(7,003,373)	4,798,734
Changes in reinsurers' share	(15,989,703)	31,717,604
	₱98,622,409	₱93,956,946

The Company's other underwriting expenses amounting to ₱15.5 million in 2019 (₱19.6 million in 2018) pertain to costs incurred by the Company in the conduct of underwriting services such cost for inspection, printing and share of the expenses from assumed business.

21. Investment and Other Income (Losses)

This account consists of:

	Note	2019	2018
Interest income	5	₱25,281,247	₱16,265,475
Dividend income	11	2,506,246	2,738,669
Fair value gain (loss) on revaluation of investment properties	13	(2,472,000)	3,296,000
Rent income	27	1,631,746	1,667,744
Foreign exchange (loss) gain		(664,452)	703,926
Gain (loss) on sale of AFS financial assets	11	83,574	(31,595,398)
Miscellaneous income		1,431,805	4,778,157
		₱27,798,166	(₱2,145,427)

Miscellaneous income includes gain on sale of scrap materials and reversal of provision for penalties due to regulator after final settlement was made.

22. General and Administrative Expenses

This account consists of:

	Note	2019	2018
Salaries and employee benefits	23	₱39,062,452	₱47,352,451
Provision for impairment losses on premium receivables	7	20,725,294	10,858,673
Depreciation and amortization	14	4,440,856	4,308,284
Director's fees and allowances	25	3,890,031	4,053,913
Transportation and travel		3,232,206	4,742,217
Representation and entertainment		3,216,240	4,277,297
Communication and postage		2,490,060	2,897,602
Repairs and maintenance		2,439,766	3,091,876
Professional fees		1,971,807	2,303,320
Advertising and promotions		1,831,997	5,836,715
Service fees		1,602,440	1,909,456
Light and water		1,485,633	1,738,814
Printing, stationery and office supplies		1,256,453	3,838,614
Rent expense	27	888,683	979,557
Taxes and licenses		534,275	1,498,282
Association dues		251,680	449,160
Insurance		141,140	166,812
Meetings and conferences		95,626	145,977
Others		5,623,643	5,053,858
		₱95,180,282	₱105,502,878

23. Salaries and Employee Benefits

This account consists:

	Note	2019	2018
Salaries and wages		₱18,737,339	₱27,135,029
Allowances and bonuses		16,999,397	15,774,247
Retirement expense		1,707,608	2,452,703
Social security costs		1,618,108	1,990,472
	22	₱39,062,452	₱47,352,451

Retirement Benefit Costs

The Company has a funded, noncontributory defined benefit retirement plan covering all permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. An independent actuary conducts an actuarial valuation of the retirement benefit liability using the projected unit credit method. The latest actuarial valuation was made as at December 31, 2019. Valuations are obtained on a periodic basis.

The plan entitles any employee on the day of his attainment of age 60 or completing 30 years of service, whichever is earlier, be retired and be entitled to full normal benefits. Full normal benefits of an employee who has reached the age of 60 and has rendered 20 years or more of service, or an employee who has rendered 30 years of service, regardless of age, shall be equivalent to 150% of one month's pay per year of service. On the other hand, an employee who has reached age 60 and has rendered less than 20 years of service shall be entitled to a normal retirement benefit equivalent to 125% of one month's pay per year of service. The basis of a month's pay is the employee's basic salary at the time of retirement.

The plan is registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act No. 4917, as amended.

The retirement expense recognized as part of "Salaries and employee benefits" account under "General and administrative expenses" in the statement of comprehensive income is as follows:

	2019	2018
Current service cost	₱1,905,565	₱2,480,289
Net interest income	(197,957)	(27,586)
	₱1,707,608	₱2,452,703

Net retirement assets recognized in the statement of financial position is as follows:

	2019	2018
Fair value of plan assets	₱10,976,229	₱20,044,809
Present value of retirement liability	(8,156,280)	(17,276,180)
	₱2,819,949	₱2,768,629

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

	2019	2018
Balance at beginning of year	₱20,044,809	₱18,779,553
Benefits paid	(10,230,212)	(2,521,888)
Actuarial loss	(1,621,572)	(689,598)
Interest income	1,433,204	1,070,435
Contributions to plan assets	1,350,000	3,406,307
Balance at end of year	₱10,976,229	₱20,044,809

Changes in the present value of retirement liability are as follows:

	2019	2018
Balance at beginning of year	₱17,276,180	₱18,295,595
Current service cost	1,905,565	2,480,289
Interest cost	1,235,247	1,042,849
Benefits paid	(10,230,212)	(2,521,888)
Actuarial gain	(2,030,500)	(2,020,665)
Balance at end of year	₱8,156,280	₱17,276,180

The Company's plan assets consist mainly of short-term, highly liquid investments are as follows:

	2019	2018
Cash	₱10,030,609	₱5,045,844
Receivables	1,503,370	2,773,695
Trust fee payable	(557,750)	(557,750)
Investments	—	12,783,020
	₱10,976,229	₱20,044,809

The carrying amounts disclosed above reasonably approximate fair value.

The Company, depending on its financial position, shall contribute to the fund considering the defined benefits liability amount as calculated by an independent actuarial advisor based on reliable and reasonable actuarial assumptions.

The plan exposes the Company to the following risks:

- Salary risk - any increase in the retirement plan participants' salary will increase the retirement plan's liability
- Longevity risk - any increase in the plan participants' life expectancy will increase the retirement plan's liability
- Investment risk - if the actual return on plan assets is below the discount rate used in calculating the present value of the retirement liability, a plan deficit will arise. However, the composition of plan assets are mainly cash in bank and cash equivalents which are subject to insignificant risk of changes in value
- Interest rate risk - a decrease in the bond interest rate will increase the present value of the retirement liability. However, partially counterbalanced by an increase in the return on the plan assets

Key Financial Assumptions

The principal actuarial assumptions used at the reporting date are as follows (expressed as percentage under weighted averages):

	Change in Assumption	2019	2018
Discount rate	+0.5%	5.38%	7.65%
	-0.5%	4.38%	6.65%
Salary increase rate	+0.5%	5.50%	5.50%
	-0.5%	4.50%	4.50%

Assumptions regarding future mortality are based on the 1994 Group Annuity Mortality (GAM) Table for male and female. The weighted average duration of the defined benefit obligation is 16 years as at December 31, 2019 (12 years as at December 31, 2018).

The cumulative remeasurement loss on net retirement asset recognized as part of equity follows:

	Note	2019	2018
Balance at beginning of year		₱3,918,520	₱4,850,267
Actuarial gain on PVBO		(2,030,500)	(2,020,665)
Actuarial loss on FVPA		1,621,572	689,598
Tax effect	24	122,678	399,320
		₱3,632,270	₱3,918,520

Maturity Profile

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

	2019	2018
Less than one (1) year	₱-	₱182,992
More than one (1) year to five (5) years	1,767,051	1,766,552
More than five (5) years to 10 years	6,529,585	7,950,513
More than 10 years to 15 years	18,800,497	47,665,291
More than 15 years to 20 years	10,196,631	11,919,607
More than 20 years	73,781,496	197,265,079
	₱111,075,260	₱266,750,034

Asset-Liability Matching Strategy

The Company does not perform any Asset-Liability Matching Study. The overall investment policy and strategy of the retirement plan is based on the client suitability assessment. It does not, however, ensure that there will be sufficient assets to pay the retirement benefits as they fall due while attempting to mitigate the various risks of the plan.

24. Income Taxes

This account consists of:

	2019	2018
Current	₱181,972	₱889,644
Deferred income tax expense (benefit)	22,719,986	(4,856,118)
Final tax	5,007,745	3,206,748
	₱27,909,703	(₱759,726)

The Company's provision for current income tax represents minimum corporate income tax (MCIT) in 2019 and 2018.

The Company's net deferred tax assets relate to the tax effect of the following temporary differences:

	2019	2018
Deferred tax assets on:		
Provision for IBNR Claims	₱7,905,300	₱12,507,446
Provision for probable claims	3,887,128	–
Allowance for impairment losses on:		
AFS Investments	–	2,611,138
Insurance and other receivables	–	15,670,444
NOLCO	–	2,764,523
Accrued expenses – net	–	1,033,927
Past service cost	–	32,218
	11,792,428	34,619,696
Less deferred tax liability on net retirement asset	845,985	830,589
Net deferred tax assets	₱10,946,443	₱33,789,107

CWT amounting to ₱3.5 million was applied by the Company against RCIT due in 2019 (₱5.2 million in 2018).

Details of unrecognized deferred tax assets are as follows:

	2019	2018
NOLCO	₱20,830,053	₱19,060,644
Allowance for impairment losses on:		
Insurance and other receivables	15,670,444	–
AFS Investments	2,611,138	–
Provision for IBNR claims	2,501,135	–
Excess MCIT over RCIT	1,793,516	2,002,817
	₱43,406,286	₱21,063,461

The Company did not recognize deferred taxes amounting to ₱43.4 million as at December 31, 2019 (₱21.1 million as at December 31, 2018), as the management believes that future deductible items and carryforward benefits from unused NOLCO and MCIT may not be realized as future taxable income may not be sufficient to realize the related tax benefit based on the Company's financial projection.

The reconciliation between income tax benefit computed at statutory income tax rate and provision for (benefit from) income tax as shown in the statement of comprehensive income are as follows:

	2019	2018
Income tax benefit at statutory tax rate	(P11,457,477)	(P10,229,294)
Movement in unrecognized DTA	22,342,825	1,775,766
Income tax effects of:		
Expired NOLCO	11,195,155	9,028,042
Non-deductible expenses	8,049,902	563,897
Difference of final tax rate against statutory tax rate	(2,576,629)	(1,672,894)
Dividend income	(751,874)	(821,601)
Unrealized loss on fair value change of investment properties	741,600	—
Expired MCIT	391,273	596,358
Gain on sale of AFS investments subjected to stock transfer tax	(25,072)	—
	P27,909,703	(P759,726)

The Company opted to use the itemized method of deduction for its income tax returns in 2019 (and 2018).

The details of the Company's NOLCO which can be claimed as a credit against future taxable income are as follows:

Year Incurred	Beginning Balance	Incurred	Applied/ Expired	Ending Balance	Year of Expiry
2019	P—	P34,000,138	P—	P34,000,138	2022
2018	35,035,075	—	—	35,035,075	2021
2017	398,297	—	—	398,297	2020
2016	37,317,183	—	(37,317,183)	—	2019
	P72,750,555	P34,000,138	(37,317,183)	P69,433,510	

The details of the Company's MCIT which can be claimed as a credit against future tax payable are as follows:

Year Incurred	Beginning Balance	Incurred	Applied/ Expired	Ending Balance	Year of Expiry
2019	P—	P181,972	P—	P181,972	2018
2018	889,644	—	—	889,644	2021
2017	721,900	—	—	721,900	2020
2016	391,273	—	(391,273)	—	2019
	P2,002,817	P181,972	(391,273)	P1,793,516	

The components of deferred tax as reported in the statement of comprehensive income are as follows:

	Note	2019	2018
Recognized in profit or loss		₱22,719,986	(₱4,856,118)
Recognized in OCI	23	122,678	399,320
		₱22,842,664	(₱4,456,798)

25. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. Included in the corporate entities are management entities that provide key management personnel (KMP) services to the Company, either directly or through a group of entities.

The Company's related parties include AFPMBAI and the Company's KMP. Significant related party transactions are summarized below:

Transactions with related party consist mainly of the following activities:

Nature of Transaction	Year	Notes	Amount of the Transaction	Outstanding Balance
AFPMBAI				
▪ Premium income	2019	a	₱267,655	₱-
	2018	a	3,831,279	-
▪ Rental expense	2019	b	190,223	-
	2018	b	424,639	-
Directors				
▪ Fees and allowances	2019	22	3,890,031	-
	2018		4,053,913	-
Total	2019			₱-
Total	2018			-

- a. AFPMBAI has a motor car and fidelity bond insurance agreement with the Company amounting to ₱0.3 million in 2019 (₱3.8 million in 2018).

In addition, AFPMBAI contracted the Company for a fire insurance agreement covering real estate properties of borrowers who were granted mortgage and housing loans. Monthly amortization for the fire insurance is shouldered by the borrowers.

- b. In 2016, the Company entered into a lease agreement with AFPMBAI for its extension office. Rental expense included in the statement of comprehensive income amounted to ₱0.2 million in 2019 (₱0.4 million in 2018).

Compensation of Key Management Personnel

The compensation of key management personnel is as follows:

	2019	2018
Salaries and other short-term employee benefits	₱7,018,623	₱6,584,749
Pension and other post-employment benefits	889,433	2,076,345
	₱7,908,056	₱8,661,094

26. Equity

Capital Stock

The Company has 250,000 common shares of authorized capital stock at ₱1,000 par value, all of which are issued and outstanding as at December 31, 2019 and 2018.

In 2017, the Philippine SEC approved the Company's increase in authorized capital stock for 275,000 preferred shares at ₱1,000 par. The total increase in authorized capital stock was fully subscribed by AFPMBAI wherein ₱227.75 million was initially paid.

As at December 31, 2019 (and 2018), the remaining unpaid subscription of AFPMBAI amounted to ₱47.2 million.

27. Commitments and Contingencies

Lease Commitments

The Company, as a lessor, leases a portion of its building to various tenants. The lease may be renewed under mutually acceptable terms and conditions.

Future minimum lease rental income as at December 31, 2019 and 2018 are as follows:

	2019	2018
Within one year	₱1,506,299	₱1,540,687
More than one year but not more than five years	753,383	2,166,194
	₱2,259,682	₱3,706,881

Rent income earned by the Company amounted to ₱1.6 million in 2019 (₱1.7 million in 2018) (see Note 21).

The Company, as a lessee, leased spaces for the branches and extension offices. The lease may be renewed under mutually acceptable terms and conditions.

Future minimum rental expense as at December 31, 2019 due within one (1) year amounted to ₱0.1 million (₱0.2 million as at December 31, 2018).

Total rent expense amounting to ₱0.9 million in 2019 (₱1.0 million in 2018), are presented as part of "General and administrative expenses" account in the statement of comprehensive income (see Note 22).

Contingencies

As at December 31, 2019, the Company is contingently liable to the following lawsuits and claims:

- The Company, in the ordinary course of business, has various legal proceeding for insurance-related claims and claims from resigned employee.
- The Company has a pending tax case in the Court of Tax Appeals in Quezon City for the BIR's tax assessment for taxable year 2006, which is based on the Formal Letter of Demand received from BIR on April 6, 2010. In 2019, the Company applied for tax amnesty and compromise settlement with the BIR for the said tax deficiencies and paid ₱3.1 million. As at December 31, 2019, the application is still pending for processing and approval with the BIR. To provide for provisions for contingencies, the Company has recognized a liability of ₱10.5 million as at December 31, 2019 and 2018. This liability is presented as part of "Accounts and other payables" account in the statement of financial position (see Note 17).

The Management believes that the ultimate liability for these lawsuits, claims, and tax assessments, if any, would not be material in relation to the financial position and operating results of the Company.

28. Insurance and Financial Risk Management Objectives and Capital Management

Governance Framework

The Company is exposed to insurance risk and a variety of financial risks which results from its operating and investing activities. The Company's risk management involves the close cooperation of the Company's BOD in developing policies on insurance, credit, liquidity, and market risks, as more fully described below.

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities. The Company recognizes the importance of having efficient and effective risk management system in place.

The Company established risk management function with clear terms of reference for the BOD, its committees and the associated executive management committees. Further, a clear organization structure with documented delegated authorities and responsibilities from the BOD to executive management committees and senior managers has been developed. Lastly, a Company policy framework which sets out the risk appetite of the Company's operations has been put in place. Each committee has a member of senior management which is charged with overseeing compliance with the policy throughout the Company.

The BOD has approved the Company risk management policies and meets regularly to approve any commercial, regulatory and own organizational requirements in such policies. The policies define the Company's identification of risks and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specify reporting requirements.

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Company is satisfactorily managing its 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 acceptable levels of risk.

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 positions [e.g. net worth requirements and risk-based capital (RBC) requirements]. Such restrictive provisions minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Net Worth Requirements

Under the Amended Insurance Code (Republic Act No. 10607) which was approved on August 15, 2013, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

Net Worth	Compliance Date
₱250,000,000	On or before June 30, 2013
550,000,000	On or before December 31, 2016
900,000,000	On or before December 31, 2019
1,300,000,000	On or before December 31, 2022

The Company as a grantee of a certificate of authority by IC to transact as a servicing insurance company is not subject to net worth requirement under Amended Insurance Code (Republic Act No. 10607) starting 2019. The Company's net worth amounted to ₱548.3 million as at December 31, 2019 (₱607.4 million as at December 31, 2018).

The final amount of net worth can be determined only after the accounts of the Company have been examined by the IC, especially as to the admitted and non-admitted assets, as defined under the Insurance Code.

RBC2 Requirements

The Company, upon conversion of its license to a servicing insurance company in 2019, becomes exempted from the compliance with the RBC2 framework issued by the IC. As at December 31, 2018, the Company has complied with the RBC2 requirements based on the result of IC examination.

IC Circular No. 2016-68, Amended RBC2 Framework, provides for the RBC2 framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the insurance companies in relation to the risks an insurance company is exposed to. Every non-life insurance company is annually required to maintain an RBC2 ratio of at least 100% and not to fail the trend test. Failure to meet the minimum RBC2 ratio shall subject the insurance company to regulatory intervention which could be at various levels depending on the degree of the violation.

The RBC2 ratio shall be calculated as total available capital (TAC) divided by the RBC2 requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits determined by IC. With Tier 1 Capital being the capital fully available to cover losses at all times on a going concern and winding up basis. And Tier 2 Capital as the capital that can also provide additional buffer to the insurance company, though it is not of the same high quality as Tier 1 Capital.

New Regulatory Requirements

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.

CL No. 2016-69, implementation requirements for FRF, valuation standards for insurance policy reserves and new risk-based capital framework provides that the level of sufficiency for the RBC 2 Framework shall be at 95% level in 2017, 97.50% in 2018, and 99.50% in 2019.

On March 9, 2018, IC issued CL No. 2018-18 which prescribes the new valuation standards for non-life insurance policy reserves and replaced CL No. 2016-67. Among others, the new valuation standards provides for the determination of premium liabilities on an aggregate basis. A computation should be performed to determine whether an additional reserve is required to be booked on top of the unearned premium reserve (UPR). Therefore, premium liabilities should be valued equal to the UPR plus the difference between the unexpired risk reserve (URR) and the UPR, net of deferred acquisition cost (DAC). UPR shall be calculated for all classes of business, on a gross of reinsurance basis while URR shall be calculated as the best estimate of future claims and expenses for all classes of business, with margin for adverse deviation. The changes shall take effect retroactively from January 1, 2017. The Company has elected to apply the change in valuation methodology for the Company's premium liabilities retrospectively.

The Company has elected to apply the change in valuation methodology for the Company's premium liabilities retrospectively. The adoption did not have a significant impact as the Company's URR did not exceed its UPR.

As at December 31, 2019 (and 2018), the Company has complied with the new valuation standard requirements of the IC (see Note 15).

Capital Management Framework

The Company has developed an internal risk management framework for identifying risks to which the Company as a whole is exposed, quantifying their impact on economic capital. The internal framework estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risks applied to a number of tests (both financial and non-financial) on the capital position of the business.

The Company's capital management objectives are:

- To ensure the Company's ability to continue as a going concern; and
- To provide an adequate return to shareholders by complying with the capital requirements and limitation enforced by the IC and by aligning the Company's operational strategy to its corporate goals.

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the IC and the amount computed under the RBC model.

The Company manages capital through a process that determines future projected capital requirements through the development of long-term financial plans and projections that consider the impact of surplus of new business, profitability of in-force business and other major corporate initiatives that will affect capitalization levels.

The IC is interested in protecting the rights of the policyholders and maintaining close vigil to ensure that the Company is satisfactorily managing the affairs for policyholders' benefits.

There were no changes made to its capital base, objectives, policies and processes from previous years.

The Company's unimpaired capital as at December 31 follows:

	2019	2018
Capital stock	P477,750,000	P477,750,000
Additional paid-in capital	173,140,704	173,140,704
	P650,890,704	P650,890,704

The risks and ways on how the Company manages insurance and financial risks are set out below.

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 that 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 following tables set out the concentration of the claims liabilities by type of contract:

	2019		
	Gross Claims Liabilities	Reinsurer's Share of Claims Liabilities	Net Claims Liabilities
Fire	P57,812,233	P27,197,405	P30,614,828
Motor car	38,250,144	2,008,245	36,241,899
Bonds	51,547,706	482,000	51,065,706
Miscellaneous	12,963,251	2,563,177	10,400,074
	P160,573,334	P32,250,827	P128,322,507

	2018		
	Gross Claims Liabilities	Reinsurer's Share of Claims Liabilities	Net Claims Liabilities
Fire	P17,719,614	P7,537,162	P10,182,452
Motor car	37,125,921	2,256,576	34,869,345
Bonds	18,862,768	550,440	18,312,328
Miscellaneous	36,320,589	2,816,280	33,504,309
	P110,028,892	P13,160,458	P96,868,434

For general insurance contracts, the most significant risks arise from climate changes and natural disasters. These risks vary significantly in relation to the location of the risk insured by the Company and types of risks insured.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

The variability of risks is also improved by careful selection and implementation of underwriting strategies, strict claims review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims. 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 has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's premium retained.

The majority of reinsurance business ceded is placed on a surplus basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to the reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Terms and Conditions

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

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

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported.

The measurement process primarily includes projection of future claim costs through a statistical projection technique. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar businesses are used in developing claims estimates. Claims provisions are separately analyzed by class of business. In addition, larger claims are separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

Key Assumptions

The principal assumptions underlying the estimates made by the Company depend on the past claims experience and industry levels. These include assumptions in respect to average claim costs, inflation factor, claim number for each accident year and handling cost. Judgment is used to assess the extent to which external factors such as judicial decision and government legislation affect the estimates.

Sensitivity Analysis

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

Claims Development Table

The Company aims to maintain strong reserves in respect of its insurance business on order to protect against adverse future claims experience and developments. Amounts of estimate at the accident year were based from adjusters' report who handle major accounts of the Company, usually for fire and marine claims. Other estimates are based on reasonable approximation after doing business through evaluation of reported claims. Adjustments to actual claims versus the loss reserves are made in the year the ultimate cost of claim becomes more certain. Reserves are either released or increased depending on the amount.

In accordance with the claims development methodology described earlier, the Company has come out with the following claims development table:

Gross Insurance Contract Liabilities for 2019						
Accident Year	2015 and Prior years	2016	2017	2018	2019	Total
Estimate of claims costs at the end of accident year	₱148,821,587	₱110,646,838	₱68,919,567	₱88,430,494	₱76,606,655	₱76,606,655
One year later	12,054,150	75,099,530	64,706,639	69,131,734	-	69,131,734
Two years later	1,636,526	53,860,010	38,505,785	-	-	38,505,785
Three years later	712,674	1,116,445	-	-	-	1,116,445
Four years later	38,821,117	-	-	-	-	39,821,117
Current estimate of cumulative claims	38,821,117	1,116,445	38,595,785	69,131,734	79,606,655	225,181,736
Cumulative payments to date	(16,027)	(26,882)	(2,146,969)	(29,894,946)	(32,523,578)	(64,608,402)
Net Liability Recognized in the Statement of Financial Position	₱38,805,090	₱1,089,563	₱36,448,816	₱39,236,788	₱47,083,077	₱160,573,334

Gross Insurance Contract Liabilities for 2018						
Accident Year	2014 and Prior Years	2015	2016	2017	2018	Total
Estimate of claims costs at the end of accident year	₱286,884,781	₱148,821,587	₱110,646,838	₱68,919,567	₱88,430,494	₱88,430,494
One year later	64,506,330	12,054,150	75,099,530	64,706,639	-	64,706,639
Two years later	670,934	1,636,526	53,860,010	-	-	53,860,010
Three years later	273,278	712,674	-	-	-	712,674
Four years later	31,609,133	-	-	-	-	31,609,133
Current estimate of cumulative claims	31,609,133	712,674	53,860,010	64,706,639	88,430,494	239,318,950
Cumulative payments to date	(2,274,420)	(7,000)	(51,962,650)	(28,858,039)	(46,187,949)	(129,290,058)
Net Liability Recognized in the Statement of Financial Position	₱29,334,713	₱705,674	₱1,897,360	₱35,848,600	₱42,242,545	₱110,028,892

Provisions for claims reported and provision for IBNR claims amounted to ₱106.2 million and ₱32.0 million as at December 31, 2019 (₱68.3 million and ₱41.7 million as at December 31, 2018), respectively. Recoveries from reinsurers amounted to ₱22.9 million in 2019 (₱13.2 million in 2018). Hence, net provision for claims amounted to ₱115.4 million as at December 31, 2019 (₱96.9 million as at December 31, 2018) (see Note 15).

Details of the net loss presented in the following tables reflect the cumulative incurred claims, including both claims notified and IBNR, for each successive accident year at each reporting date, together with the cumulative payments to date.

Net Insurance Contract Liabilities for 2019						
Accident Year	2015 and Prior Years	2016	2017	2018	2019	Total
Estimate of claims costs at the end of accident year	P148,821,587	P110,646,838	P68,919,567	P79,529,297	P68,871,525	P68,871,525
One year later	12,054,150	75,099,530	64,263,810	56,941,226	-	56,941,226
Two years later	1,636,526	53,314,698	38,249,579	-	-	38,249,579
Three years later	702,244	659,629	-	-	-	659,629
Four years later	24,659,847	-	-	-	-	24,659,847
Current estimate of cumulative claims	24,659,847	659,629	38,249,579	56,941,226	68,871,525	189,381,806
Cumulative payments to date	(9,006)	(26,882)	(2,107,839)	(27,165,530)	(31,750,042)	(61,059,299)
Net Liability Recognized in the Statement of Financial Position	P24,650,841	P632,747	P36,141,740	P29,775,696	P37,121,483	P128,322,507

Net Insurance Contract Liabilities for 2018						
Accident Year	2014 and Prior Years	2015	2016	2017	2018	Total
Estimate of claims costs at the end of accident year	P286,884,781	P148,821,587	P110,646,838	P68,919,567	P79,529,297	P79,529,297
One year later	64,506,330	12,054,150	75,099,530	64,263,810	-	64,263,810
Two years later	670,934	1,636,526	53,314,698	-	-	53,314,698
Three years later	273,278	702,244	-	-	-	702,244
Four years later	27,875,047	-	-	-	-	27,875,047
Current estimate of cumulative claims	27,875,047	702,244	53,314,698	64,263,810	79,529,297	225,685,096
Cumulative payments to date	(2,268,441)	-	(51,905,512)	(28,484,778)	(46,157,929)	(128,816,660)
Net Liability Recognized in the Statement of Financial Position	P25,606,606	P702,244	P1,409,186	P35,779,032	P33,371,368	P96,868,436

Financial Risk

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

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties; right of offset where counterparties are both debtors and creditor; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

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

In respect of investment securities, the Company limits its exposure by setting maximum limits of portfolio securities with a single or group of issuers. The Company also makes use of institutions with high creditworthiness.

The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counter parties which are set by reference to their long term ratings.

Generally, the maximum credit risk exposure of financial assets is presented gross of allowance of impairment losses, as summarized below:

	Note	2019	2018 (As Restated - Note 4)
Cash and cash equivalents*	5	₱248,666,693	₱208,924,798
Short-term investments	6	31,039,292	90,991,945
Insurance receivables**	7	96,437,966	153,805,424
HTM investments	12	281,572,266	281,954,942
Employee receivables	10	4,416,664	5,678,963
Accrued interest receivable	10	2,801,865	2,989,812
Dividend receivable	10	116,250	116,250
Security deposits	10	48,439	59,546
		₱665,099,435	₱744,521,680

*Excluding cash on hand

**Excluding reinsurance recoverable on unpaid losses and gross of allowance for impairment losses

The Company's concentration of credit risk arises from its insurance receivables and its investments in corporate and government debt securities. Insurance receivables - net of allowance for impairment losses which amounted to ₱49.5 million represents 5.8% of its total assets as at December 31, 2019 (₱117.9 million represents 12.0% of its total assets as at December 31, 2018), while investments in corporate and government debt securities which amounted to ₱281.6 million represents 33.3% of its total assets as at December 31, 2019 (₱282.0 million represents 26.9% of its total assets as at December 31, 2018).

As at December 31, 2019 (and 2018), the Company's receivables are not supported by any collaterals.

The tables below provide information regarding the credit risk exposure of the Company by classifying financial assets according to the Company's credit grading of counterparties.

December 31, 2019					
	Neither Past Due nor Impaired		Past Due but not Impaired	Past Due and Impaired	Total
	Investment High Grade	Non-investment Grade Satisfactory			
Cash and cash equivalents*	₱248,666,693	₱-	₱-	₱-	₱248,666,693
Short-term investments	31,039,292	-	-	-	31,039,292
Insurance receivables**	-	26,628,213	-	69,809,753	96,437,966
HTM investments	281,572,266	-	-	-	281,572,266
Employee receivables***	-	1,266,309	-	3,150,355	4,416,664
Accrued interest receivable***	2,801,865	-	-	-	2,801,865
Dividend receivable***	116,250	-	-	-	116,250
Security deposits***	-	48,439	-	-	48,439
	₱564,196,366	₱27,942,961	₱-	₱72,960,108	₱665,099,435

*Excluding cash on hand

**Excluding reinsurance recoverable on unpaid losses

***Included under other current assets account

December 31, 2018 (As Restated – Note 4)					
	Neither Past Due nor Impaired		Past Due but not Impaired	Past Due and Impaired	Total
	Investment High Grade	Non-investment Grade Satisfactory			
Cash and cash equivalents*	P208,924,798	P-	P-	P-	P208,924,798
Short-term investments	90,991,945	-	-	-	90,991,945
Insurance receivables**	-	63,333,015	41,387,950	49,084,459	153,805,424
HTM investments	281,954,942	-	-	-	281,954,942
Employee receivables***	-	2,528,608	-	3,150,355	5,678,963
Accrued interest receivable***	2,989,812	-	-	-	2,989,812
Dividend receivable***	116,250	-	-	-	116,250
Security deposits***	-	59,546	-	-	59,546
	P584,977,747	P65,921,169	P41,387,950	P52,234,814	P744,521,680

*Excluding cash on hand

**Excluding reinsurance recoverable on unpaid losses

***Included under "Other current assets" account

The Company uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment High Grade

This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amount of funds through the public markets and/or credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage.

Non-investment Grade – Satisfactory

This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations, for individuals into business are for corporate entities. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

Past Due but not Impaired

These are financial assets where contractual interest or principal repayment are past due but the Company believes impairment is not appropriate on the basis of the level of collateral available or status of collection of amounts owed to the Company.

Past Due and Impaired

These are financial assets which the Company determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the instruments agreement.

As at December 31, 2019 and 2018, the aging analyses of insurance receivables are as follows:

Insurance Receivables*	Total	Neither Past Due nor Impaired	Past Due but not Impaired		
			90 Days - 1 Year	Over 1 year - 3 Years	Past Due and Impaired
2019	P96,437,966	P26,628,213	P-	P-	P69,809,753
2018	153,805,424	63,332,965	38,597,000	2,791,000	49,084,459

*Excluding reinsurance recoverable on unpaid losses

Liquidity Risk

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

The Company manages its liquidity needs by carefully monitoring schedules of debt servicing payments of long-term financial liabilities as well as cash outflows due on a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection.

Long-term liquidity needs for a six-month and one year period are identified monthly. 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 maintains cash to meet its liquidity requirements for up to 60 days. Excess cash is invested in time deposits or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities in the ability to sell long-term financial assets.

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 amount and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

The tables below summarize the maturity profile of the financial assets and financial liabilities of the Company based on remaining contractual obligation, or for the insurance contract liabilities, based on the estimated timing of net cash flows:

	December 31, 2019						Total
	Less than 1 Year	1-2 Years	>2-3 Years	>3-5 Years	Over 5 Years	No Term	
Financial Assets							
Cash and cash equivalents*	₱248,666,693	₱-	₱-	₱-	₱-	₱-	₱248,666,693
Short-term investments	31,039,292	-	-	-	-	-	31,039,292
Insurance receivables**	96,437,966	-	-	-	-	-	96,437,966
AFS financial assets	-	-	-	-	-	156,711,730	156,711,730
HTM investments***	207,442,941	11,690,725	14,520,100	62,367,525	17,962,500	-	313,983,791
Employee receivables****	4,416,664	-	-	-	-	-	4,416,664
Accrued interest receivable*****	2,801,865	-	-	-	-	-	2,801,865
Dividend receivable*****	116,250	-	-	-	-	-	116,250
Security deposits*****	48,439	-	-	-	-	-	48,439
Total Financial Assets	590,970,110	11,690,725	14,520,100	62,367,525	17,962,500	156,711,730	854,222,690
Financial Liabilities							
Provision for claims reported	128,530,334	-	-	-	-	-	128,530,334
Insurance payables	8,071,916	-	1,141,850	-	-	-	9,213,766
Accounts and other payables*****	68,343,388	-	-	-	-	-	68,343,388
Total Financial Liabilities	204,945,638	-	1,141,850	-	-	-	206,087,488
Net Liquidity Surplus	₱386,024,472	₱11,690,725	₱13,378,250	₱62,367,525	₱17,962,500	₱156,711,730	₱648,135,202

*Excluding cash on hand

**Excluding reinsurance recoverable on unpaid losses

***Including future interest income of ₱32.4 million

****Included under "Other current assets" account

*****Excluding government payables

December 31, 2018 (As Restated – Note 4)							
	Less than 1 Year	1-2 Years	>2-3 Years	>3-5 Years	Over 5 Years	No Term	Total
Financial Assets							
Cash and cash equivalents*	P208,924,798	P–	P–	P–	P–	P–	P208,924,798
Short-term investments	90,991,945	–	–	–	–	–	90,991,945
Insurance receivables**	153,805,424	–	–	–	–	–	153,805,424
AFS financial assets	–	–	–	–	–	160,475,015	160,475,015
HTM investments***	60,153,402	158,977,365	11,690,725	44,400,125	50,450,000	–	325,671,617
Employee receivables****	5,678,963	–	–	–	–	–	5,678,963
Accrued interest receivable*****	2,989,812	–	–	–	–	–	2,989,812
Dividend receivable*****	116,250	–	–	–	–	–	116,250
Security deposits*****	59,546	–	–	–	–	–	59,546
Total Financial Assets	522,720,140	158,977,365	11,690,725	44,400,125	50,450,000	160,475,015	948,713,370
Financial Liabilities							
Provision for claims reported	68,337,405	–	–	–	–	–	68,337,405
Insurance payables	14,829,990	–	1,141,850	–	–	–	15,971,840
Accounts and other payables*****	92,379,731	–	–	–	–	–	92,379,731
Total Financial Liabilities	175,547,126	–	1,141,850	–	–	–	176,688,976
Net Liquidity Surplus	P347,173,014	P158,977,365	P10,548,875	P44,400,125	P50,450,000	P160,475,015	P772,024,394

*Excluding cash on hand

**Excluding reinsurance recoverable on unpaid losses

***Including future interest income of P43.7 million

****Included under "Other current assets" account

*****Excluding government payables

Market Risk

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

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

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

The Company structures levels of market risk it accepts through a sound market risk policy based on specific guidelines set by an Investment Committee. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation reporting and portfolio limit structure. Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposure to the IC, regular monitoring and review of the Company's investments performance and upcoming investment opportunities for pertinent and changing environment.

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's exposure to currency risk is minimal having no material transaction in foreign currency and financial assets or liabilities denominated in foreign currency.

Interest Rate Risk

The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration of its maturity profile. Exposures to interest rate risk comprise the following:

	December 31, 2019				
		Due in			
	Interest Rate	1 Year	2-5 Years	Beyond 5 Years	Total
Financial Assets					
Cash and cash equivalents*	1.38% to 6.13%	₱248,666,693	₱—	₱—	₱248,666,693
Short-term investments	2.74% to 7.00%	31,039,292	—	—	31,039,292
HTM investments	3.40% to 6.25%	197,572,266	74,000,000	10,000,000	281,572,266

*Excluding cash on hand

	Interest Rate	December 31, 2018			Total
		Due in			
		1 Year	2-5 Years	Beyond 5 Years	
Financial Assets					
Cash and cash equivalents*	0.25% to 4.50%	₱208,924,798	₱—	₱—	₱208,924,798
Short-term investments	2.12% to 6.50%	90,991,945	—	—	90,991,945
HTM investments	3.38% to 7.00%	47,162,052	224,792,890	10,000,000	281,954,942

*Excluding cash on hand

Any increase by 100 basis points (1%) in interest rates, with all other variables held constant, will increase net income by ₱1.6 million and ₱1.2 million for the years ended December 31, 2019 and 2018, respectively. The decrease in same basis point will reduce the net income by the same amount.

In 2019 and 2018, the Company determined the reasonably possible change in interest rate based on the historical change in weighted average yield rates of outstanding investments of the Company.

Price Risk

The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market price, principally on AFS quoted financial assets. Total AFS financial assets subject to price risk amounting to ₱149.2 million in 2019 and (₱153.0 million in 2018) (see Note 11).

A 5% increase in stock prices would have increased the carrying value of these investments by ₱7.5 million and ₱7.7 million as at December 31, 2019 and 2018, respectively. An equal change in the opposite direction would have decreased the carrying values of these investments by an equal but opposite amount.

The Company determined the reasonably possible change in Philippine Stock Exchange (PSE) Index based on the historical fluctuation of equity securities the Company holds as of the reporting date.

29. Fair Value of Financial Instruments

The table below presents a comparison by category of carrying amounts and fair values of all the Company's financial instruments that are carried in the financial statements as at December 31, 2019 and 2018:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash in banks and cash equivalents	P248,666,693	P248,666,693	P208,924,798	P208,924,798
Short-term investments	31,039,292	31,039,292	90,991,945	90,991,945
Insurance receivables	58,879,040	58,879,040	117,881,423	117,881,423
AFS investments	148,651,730	148,651,730	151,771,222	151,771,222
HTM investments	281,572,266	283,234,307	281,954,942	267,096,742
Accrued interest receivable*	2,801,865	2,801,865	2,989,812	2,989,812
Employee receivables*	1,266,309	1,266,309	2,528,608	2,528,608
Dividend receivable*	116,250	116,250	116,250	116,250
Security deposits*	48,439	48,439	59,546	59,546
	P773,041,884	P774,703,925	P857,218,546	P842,360,346
Financial Liabilities				
Provision for claims reported (included under Insurance Contract Liabilities)	P128,530,334	P128,530,334	P68,337,405	P68,337,405
Accounts and other payables**	68,343,388	68,343,388	92,379,731	92,379,731
Insurance payables	9,213,766	9,213,766	15,971,840	15,971,840
	P206,087,488	P206,087,488	P176,688,976	P176,688,976

*Included under "Other current assets" account

**Excluding payable to regulatory agencies amounting to P4.3 million and P12.7 million in 2019 and 2018, respectively.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash in Banks and Cash Equivalents, Short-term Investments, Insurance Receivables, Subscription Receivable, Accrued Interest Receivable, Employee Receivables, Dividend Receivable, Security Deposit, Provision for Claims Reported, Insurance Payables and Accounts Payable and Accrued Expenses. The carrying amounts of these instruments approximate their fair values due to their short-term maturities.

AFS investments. The fair values were determined based on Level 1 in which the inputs are based on quoted prices in active markets.

HTM investments. HTM Investments is subsequently measured at amortized cost using the effective interest method, less 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 EIR. The fair values were determined based on Level 1 in which the inputs are based on quoted prices in active markets.

30. Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Output VAT

Output VAT declared by the Company for the year ended December 31, 2019 and the revenues subject to VAT amounted to ₱12.8 million and ₱107 million, respectively. Revenues subject to VAT is based on gross receipts while revenues presented in the statement of comprehensive income are recognized on an accrual basis.

Input VAT

Movements in input VAT claimed by the Company for the year ended December 31, 2019 follow:

Input VAT at beginning of year	₱-
Current year's domestic purchases:	
Services lodged under cost of goods sold	6,040,739
Claims for tax credit/refund and other adjustments	(197,559)
Total available input VAT	5,843,180
Applied against output VAT	5,843,180
Input VAT at end of year	₱-

The Company paid output VAT amounting to ₱6.5 million in 2019. The input VAT as at December 31, 2019 amounting to ₱0.1 million is recorded under "Other current assets" account in the statement of financial position.

Withholding Taxes

Details of withholding taxes paid and/or accrued for the year ended December 31, 2017 consist of the following:

	Paid	Accrued	Total
Withholding tax on compensation	₱792,489	₱94,250	₱886,739
Expanded withholding tax	3,469,164	210,084	3,679,248
	₱4,261,653	₱304,334	₱4,565,987

All Other Taxes (Local and National)

Taxes and licenses for the year ended December 31, 2019 consist of the following:

License and permit fees	₱218,115
Others	316,160
	₱534,275

All other local and national taxes are presented as "Taxes and licenses" under "General and administrative expenses" in the statement of comprehensive income.

Tax Assessment and Cases

The Company has a pending tax case in the Court of Tax Appeals in Quezon City for the BIR's tax assessment for taxable year 2006, which is based on the Formal Letter of Demand received from BIR on April 6, 2010. In 2019, the Company applied for tax amnesty and compromise settlement with the BIR for the said tax deficiencies and paid ₱3.1 million. As at December 31, 2019, the application is still pending for processing and approval with the BIR.



**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE
BUREAU OF INTERNAL REVENUE**

The Stockholders and the Board of Directors
AFP General Insurance Corporation
AFPGEN Bldg. Col Bonny Serrano Road corner EDSA
Quezon City

We have audited the accompanying financial statements of AFP General Insurance Corporation (the Company) as at and for the year ended December 31, 2019, on which we have rendered our report dated March 31, 2020.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

REYES TACANDONG & Co.

PAMELA ANN P. ESCUADRO

Partner

CPA Certificate No. 128829

Tax Identification No. 216-321-918-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 1471-AR-1 Group A

Valid until June 4, 2021

IC Accreditation No. SP-2018-003-O

Valid until March 7, 2021

BIR Accreditation No. 08-005144-013-2020

Valid until January 1, 2023

PTR No. 8116481

Issued January 6, 2020, Makati City

March 31, 2020
Makati City, Metro Manila