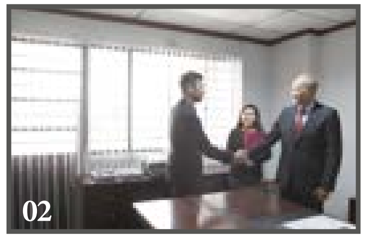
UNLOCKING THE BLUE OCEAN

The 2019 Annual Report

ALLIEDBANKERS INSURANCE CORPORATION
A member of the Lucio Tan Group of Companies
We Cover, You Recover.

What's INSIDE



About the COVER

Our OWN BLUE OCEAN

At the end of 2018, Alliedbankers Insurance Corporation (ABIC) set out on a voyage to seek and establish its own Blue Ocean given the swath of opportunities that should be more than sufficient for the 50-plus players in the industry. We have not sailed that far when we realized that our boat, ABIC, had to be refurbished and reconditioned to withstand the challenges that an unforgiving ocean would throw at us. Sail back to port, we did! This was to strengthen and prepare ABIC for the challenging but potentially rewarding journey.

While we endeavored to chase our targets, we, at the same time, reviewed and strengthened ABIC's internal infrastructure. By the third quarter of 2019, we re-launched our boat. This is a continuing voyage and 2020 will be a continuation of what we have set out to accomplish: Build ABIC's Blue Ocean.

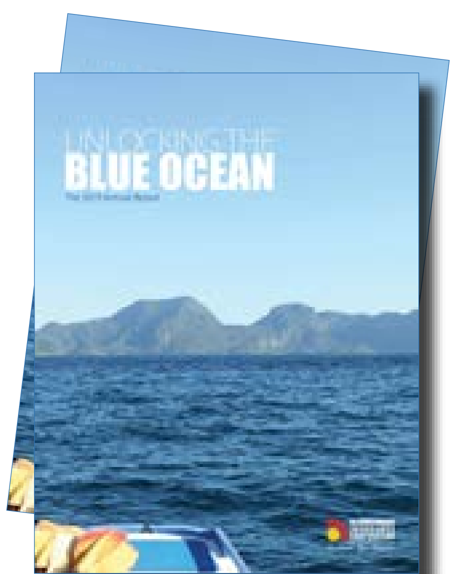


Photo credit: Kapreng Pinoy
Location: El Nido, Palawan

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The 2019 Annual Report

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ALLIEDBANKERS INSURANCE CORPORATION
A member of The Lucio Tan Group of Companies
We cover, you recover.

Our MISSION

ABIC is to be the preferred non-life insurance arm of the Lucio Tan Group of Companies and their customers, our allied business undertakings, business partners, associates, employees and other stakeholders.

ABIC shall continue to strive to be a dynamic company by providing a range of comprehensive, competitively priced and innovative insurance and other supplemental products suitable to the risks and needs of our client base.

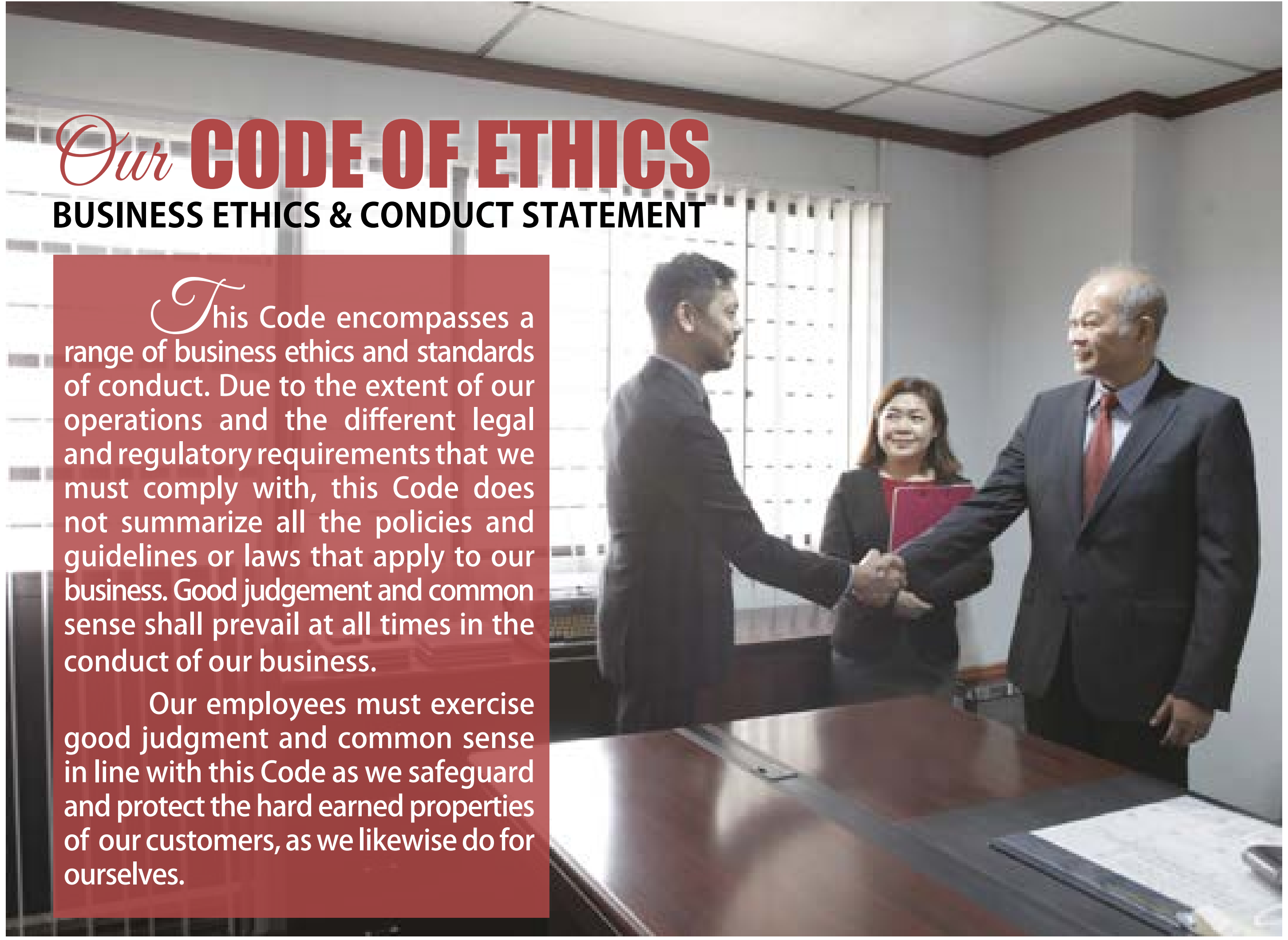
We aim to foster and synergise the relationships within the Lucio Tan Group of Companies and our other customers.

Our VISION

ABIC will be the Best Managed and Best in Service Delivery Non-Life Insurance Company in the Philippines.

The years from 2020 to 2022 are meant to level up our efforts to create our own Blue Ocean of Opportunities where our Service Delivery will result in being the Best Managed Non-Life Insurance Company in the country.

We shall live up to the trust and confidence given to us by our stakeholders, and carry out our tasks with professionalism and integrity with all the parties we deal with, guaranteeing the long term viability and profitability of our Company.



Our CODE OF ETHICS

BUSINESS ETHICS & CONDUCT STATEMENT

This Code encompasses a range of business ethics and standards of conduct. Due to the extent of our operations and the different legal and regulatory requirements that we must comply with, this Code does not summarize all the policies and guidelines or laws that apply to our business. Good judgement and common sense shall prevail at all times in the conduct of our business.

Our employees must exercise good judgment and common sense in line with this Code as we safeguard and protect the hard earned properties of our customers, as we likewise do for ourselves.

PURPOSE

ABIC endeavors to do the right thing within the bounds of the values we live with and adhere to for our customers, accredited intermediaries, employees, shareholders and other communities including the government regulators and the public at large.

COMPLIANCE WITH LAWS AND POLICIES

ABIC strongly adheres to the compliance with laws set by the government regulatory bodies, and the internal policies approved by our Board of Directors and various working management committees covering the insurance products and services we offer to our clients.

It is deeply engrained in us that we must respect all laws and abide by all regulations that affect our conduct of business, and that we shall carry out the following:

1. Ensure that we operate within the law, regulations and internal policies at all times;
2. Ensure that we deal with regulators in an open, transparent and cooperative manner and comply with the set requirements;
3. Ensure compliance with all policies within ABIC at any given time;
4. Constantly keep in mind that non-compliance may harm ABIC's reputation and lead to fines or other criminal or civil sanctions.

Scope

ABIC's Code of Ethics applies to our Board of Directors and all employees of ABIC. It is embodied in all actions we do, which are meant to carry out the following objectives:

1. To be fair and attentive to the interests and requirements of all ABIC clients;
2. To adhere to professionalism, honesty and integrity when dealing with the Company's clients, stakeholders and business partners;
3. To act at all times with due care and diligence and within the limits of authority.

Values

The decisions we make and how we carry out our business are a reflection of ABIC's values, principles and beliefs. It is always directed towards the satisfaction of our clients, business partners, stakeholders and our colleagues at work.

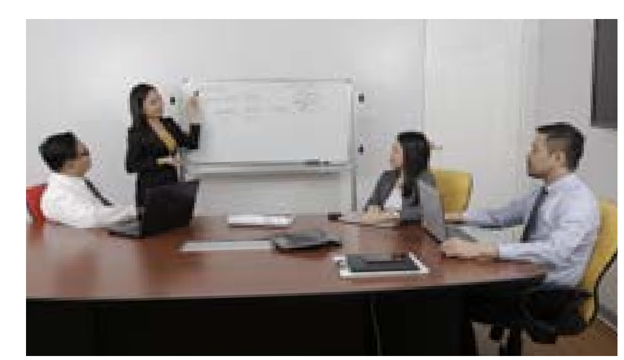
Our company values reflect what is important to us as we continually grow our business portfolio. The following values are what guide our beliefs, attitudes and behaviour in our work life:

1. We act in a financially honest and prudent manner ensuring the protection of the money and properties we hold on behalf of our clients and stakeholders;
2. Our actions at all times are fair and respectful providing all clients with due respect, consideration and opportunity;
3. Our actions are found to be trust-worthy by our clients and that we communicate with them in a clear, concise, prompt and professional manner;
4. Our actions provide suitable, fair and objective recommendations to our clients.

ACCOUNTABILITY ON CONFLICT OF INTEREST

1. All employees must avoid any conflict of interest between himself, ABIC, its affiliations' interests and their duties to the clients;
2. All employees must avoid any conflict between any competing interests of one or more of its client(s) and shall distance themselves from such conflicts if they cannot be resolved;
3. All employees are expected to maintain high ethical standards, uphold ABIC's reputation and report unethical or illegal behavior;
4. ABIC is committed to ensuring that actual and potential conflicts of interest are identified, and are appropriately brought to management's attention for proper action;
5. All employees are expected to maximize their working time and efforts for ABIC's interests, and to avoid any activity and behavior that are contradictory to its Code of Ethics.

Internally, we have the Senior Management Committee composed of Executive Officers that closely monitors situations that can result in conflict of interest. The Related Party Committee of our Board of Directors, on the other hand, reviews and approves contracts with our affiliated partners before we commit and bind ourselves with them.



UNLOCKING THE BLUE OCEAN

> "The challenge is our ability to swim through a Blue Ocean with strength and stamina."

THE PRESIDENT'S REPORT

2019: A Year of Reflection and Housecleaning

At the start of 2019, we said we will embark on finding our own Blue Ocean to spur an **Average Net Income growth that is beyond the average 13%** over the last eight years of ABIC's business operations.

This comes from **almost-total dependence on our Captive Market,** primarily, the LT Group of Companies and the Bancassurance business with Philippine National Bank. Over the years, these two channels have served as ABIC's exclusive Blue Ocean but, without an earnest and focused foray into the Open Market, they have also limited the potential growth of our non-life insurance business. This is a sad fact considering that, with the industry's meager 2.5% market penetration, there lies a huge market that is just waiting to be tapped by the industry players. A potential that is probably more than enough for the remaining market players to have healthy operations in the coming years.

> "We instituted reforms in the key areas of Risk Management, Sales, Claims Servicing, Information Technology, and Portfolio Mix Rationalization."

For ABIC, the challenge goes beyond mere exploration to discover untapped market niches. The challenge is our ability to swim through a Blue Ocean with strength and stamina. We have been so used to doing business with a captive market that we needed to **reflect on our strengths and weaknesses** to determine if, in the first place, we have what it takes to embark on a swimming expedition on unchartered waters that is the Open Market.

Alas, this is where we found ourselves unprepared. The year **2019 thus became a year of reflection and housecleaning.**

The whole year was dedicated to introspection and reforms. While so much work still remains even at the end of 2019, these are what we have accomplished:

1. **Doubled the Net Income** from P62 million in 2018 to P128 million;
2. Achieved the **Highest Net Income ever** in ABIC's history; and,
3. **Achieved a 100% Rating** of the Company's Metrics.

What did it take to double the previous year's income and improve the financial ratios?

We instituted reforms in the key areas of Risk Management, Sales, Claims Servicing, Information Technology, and Portfolio Mix Rationalization.

RISK MANAGEMENT

For a while, ABIC has been operating without a Chief Underwriter. This sends a loud warning bell for a former banker like me. Together with Revenue Generation, Risk Management is an equally-important pillar in the insurance business. So, we hired a Chief Underwriter with years of experience and then reviewed and overhauled ABIC's Underwriting Policies. We tempered our greed by decreasing our retention to levels that our financials can take by introducing, in addition to the existing IC-mandated 20% of Equity, the concept and observance of **Earnings at Risk (EAR)** as basis for single-risk policies. This ensures that runaway losses that are beyond recovery are eliminated.

While the retention on any policy was capped by the EAR Limit, a more thorough and strict Underwriting Evaluation process was implemented to take higher single risks beyond EAR. Thus, instituting a Selective Risk-Based Retention policy.

SALES

With the existing lean Sales Team, we refocused the sales effort by targeting specific Broker clients through Data Analytics and by mapping out sales activities that targeted specific brokers and lines. By the end of 2019, we have re-energized the branch network by recruiting new blood to run these, thus, preparing the branches for year 2020 as soon as 2019 ends.

On the Sales mindset, we started to change the focus from selling policies to a Holistic Client Protection approach. Easier said than done, we have started a skills development program through trainings with the help of our RI brokers and reinsurers who are more than willing to lend their expertise.

CLAIMS SERVICING

Service is our product. Claims is the means by which we showcase our Service Quality. We activated the dormant Claims Committee with regular weekly meetings, got a Claims Committee legal consultant, implemented metrics to monitor pace of processing and adherence to the set Turn Around Time, and, lastly, hired additional expertise. The Sales Support Team was likewise beefed up to ensure the dedicated handling of claims from selected high-value clients.

Gross Production was within the range

TARGET GPW PRODUCTION

P800-900M

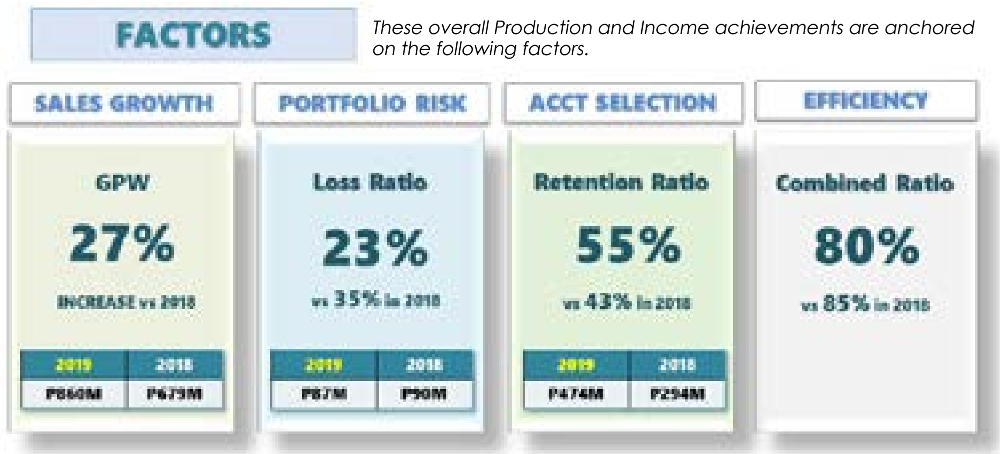
P860M

Target Net Income was surpassed.

TARGET NET INCOME

P100M

P128M



INFORMATION TECHNOLOGY

Introduced Data Analytics to enable the weekly monitoring of Sales, Claims, Revenue, and various Risk Metrics. This is in the belief that ***we cannot manage what we cannot quantify***. This brought to the surface the inadequacies of ABIC's IT system. To remedy this, we embarked on a project, managed by SGV Risk Advisory Team, to evaluate ABIC's end-to-end data processing with the aim of generating a road map to elevate it into a world-class system that is customized to ABIC's needs and, yet, ready to expand to a world of Digital Business.

PORTFOLIO MIX RATIONALIZATION

From a dependence on two product lines, we worked to rebalance our portfolio to spread Concentration Risk that will put our business at the hands of a few factors. By the end of 2019, our business portfolio was standing on three legs: Fire, Motor, and PA. The rest of our lines are not doing bad either and are ready to assume a pole position in 2020.

AUDIT AND COMPLIANCE

To ensure adherence to set objectives and reformed business processes, a full time Internal Auditor was hired. Thus, separating the Regulatory Compliance function. The planned enhancement work on the existing system will embed controls to ensure full compliance and, likewise, to mitigate risks. Together with the Business Process Unit, policies were formalized and standardized.

GENERAL MANAGEMENT

To ensure that all these initiatives and reforms move at a cohesive collective effort and on the same direction, a weekly Management Committee was convened where all the metrics are reported and collectively analyzed by Management.

The reforms are not done yet but we are poised and ready for our Blue Ocean.

Now, we can go to the water and swim.

STATEMENTS OF FINANCIAL POSITION

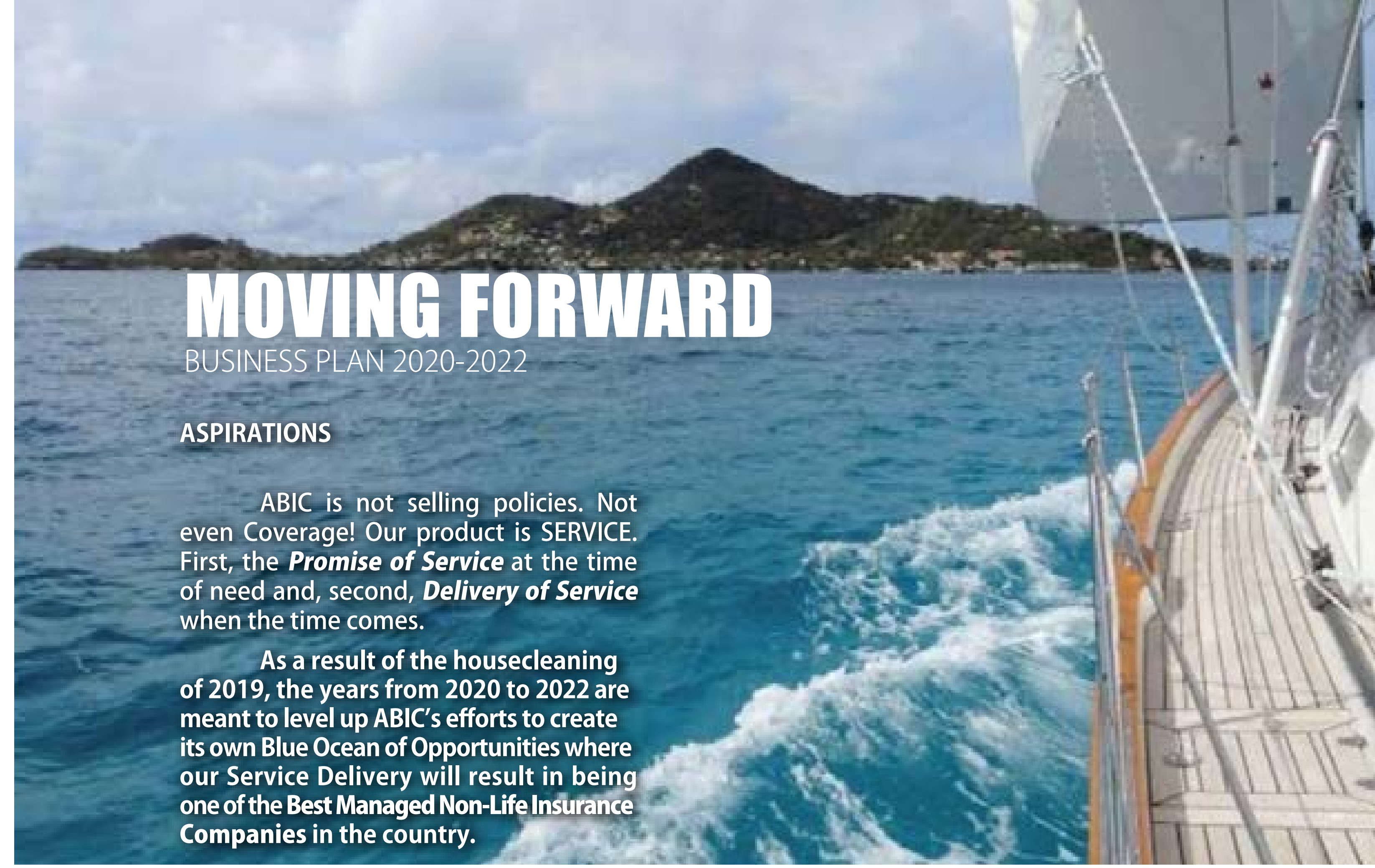
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	₱ 439,538,290	₱ 536,993,631
Short-term investments	126,589,724	-
Insurance receivables - net	577,869,893	577,316,724
Financial assets		
Financial assets at fair value through profit or loss	227,151,152	220,683,979
Available-for-sale financial assets	929,238,723	727,715,509
Loans and receivables	161,311,498	174,559,592
Accrued income	7,969,168	9,323,256
Reinsurance assets	443,426,725	368,091,356
Deferred acquisition costs	30,036,624	26,537,688
Property and equipment - net	27,051,184	24,470,405
Deferred tax assets - net	36,264,920	14,448,099
Net pension asset	-	963,671
Other assets	133,387,761	64,649,494
TOTAL ASSETS	₱ 3,139,835,662	₱ 2,745,753,404
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities	₱ 782,051,725	₱ 594,670,823
Accounts payable and accrued expenses	380,744,527	283,944,478
Insurance payables	229,154,062	301,256,571
Income tax payable	21,961,624	-
Deferred reinsurance commissions	19,585,277	14,706,719
Dividends payable	19,237,343	19,237,343
Net pension liability	4,156,157	-
TOTAL LIABILITIES	1,456,890,715	1,213,815,934
Equity		
Capital stock	470,000,000	470,000,000
Subscribed capital stock	165,537,500	165,537,500
Contributed surplus	441,615,510	441,615,510
Revaluation reserve on AFS financial assets	40,705,126	10,047,184
Remeasurement gains (losses) on defined benefit plan	(3,335,096)	4,578,414
Retained earnings	568,421,907	440,157,862
TOTAL EQUITY	1,682,944,947	1,531,936,470
TOTAL LIABILITIES AND EQUITY	₱ 3,139,835,662	₱ 2,745,752,404

STATEMENTS OF **INCOME**

DECEMBER 31, 2019 AND 2018

	2019	2018
REVENUES		
Gross earned premiums	₱ 743,634,926	₱ 614,753,414
Reinsurers' share of gross earned premiums	(369,800,235)	(357,312,672)
Net earned premiums	373,834,691	257,440,742
Investmen income - net	71,856,240	40,412,680
Commission income	57,000,772	37,095,798
Miscellaneous income	24,486,005	2,224,935
Other underwriting income	17,491,946	2,104,187
Foreign exchange gain (loss) - net	(642,913)	3,045,123
Others	223,481	60,298
Other income	170,415,531	84,943,021
TOTAL REVENUE	544,250,222	342,383,763
BENEFITS, CLAIMS AND EXPENSES		
Gross insurance benefits and claims paid	120,808,636	88,770,800
Reinsurers' share of gross insurance benefits and claims paid	(49,196,085)	(21,100,125)
Gross change in sinurance contract liabilities	71,291,355	74,696,438
Reinsurers' share of gross change in insurance contract liabilities	(56,204,828)	(51,986,432)
Net insurance benefits and claims	86,699,078	90,380,681
General and administrative expenses	157,214,655	103,628,156
Commission expense	67,315,665	54,824,038
Underwriting expenses	62,730,171	9,461,469
Interest expense	1,069,860	917,834
Expenses	288,330,351	168,831,497
	375,029,429	259,212,178
INCOME BEFORE INCOME TAX	169,220,793	83,171,585
PROVISION FOR INCOME TAX	40,956,748	21,442,574
NET INCOME	₱ 128,264,045	₱ 61,729,011



MOVING FORWARD

BUSINESS PLAN 2020-2022

ASPIRATIONS

ABIC is not selling policies. Not even Coverage! Our product is SERVICE. First, the ***Promise of Service*** at the time of need and, second, ***Delivery of Service*** when the time comes.

As a result of the housecleaning of 2019, the years from 2020 to 2022 are meant to level up ABIC's efforts to create its own Blue Ocean of Opportunities where our Service Delivery will result in being one of the Best Managed Non-Life Insurance Companies in the country.

This shall be defined by:

1. **Turnaround Time (TAT)**

Simply put, clients and partners should not feel they are waiting for a Claim to be Paid and the Commission to be Released. In 2020, the Motor Claims TAT was set at 17 days from filing to settlement. For Non-motor Claims, it was set at 33 days. This will be reduced further over the next three years. For Year 2020, Motor Claims TAT will be reduced to 10 days while Non-Motor Claims will be set at 20 days.

In addition, for Motor Line, we shall endeavor to release the Letter of Authority ("LOA") within 48 hours upon submission of the necessary documentary requirements.

2. **Holistic Approach to Risk Management**

Embark on a conscious effort to shift from a business of merely selling policies where endless haggling on premiums can and will be detrimental to both ABIC and the Assured. ABIC shall move forward to focus efforts on the Assured's Complete Protection at the time of need. This holistic approach requires a customized Risk Management Partnership with our clients and partners, both corporate and individual.

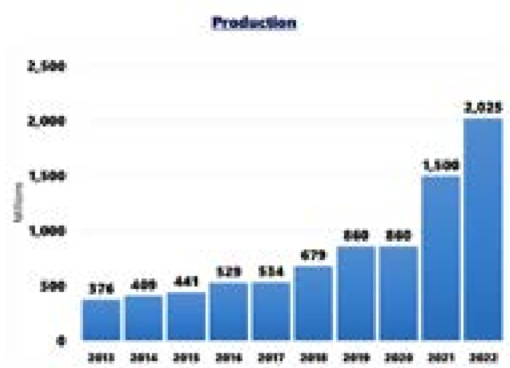
3. **Quantifiable Metrics**

A. **Financial Stability**

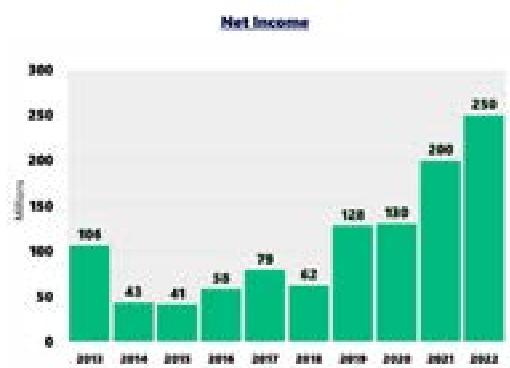
i. Risk-Based Capital Adequacy Ratio:	200% - 250%
ii. Liquidity Ratio:	100% - 150%

B. **Profitability**

i. Production Growth



Accelerate Production Growth to 34% from 2019 to 2022 compared to 13% from 2013 to 2018.



Drive the Net Income to a 33% growth rate from 2018 to 2022. From 2014 to 2018, this grew by only 13%. The P106 million income in 2013 was due primarily to a revaluation of assets.

ii. Net Income Ratio:	Around 25-30%
iii. Combined Ratio:	Below 80%
iv. Retention Ratio:	60% - 70%
v. GAE:	Around 20-25%

C. **Portfolio Mix**

i. We drive to the Mix that we want, not live with the mix that we get
ii. Dynamic Pricing to influence the mix
iii. Five Lines almost equally accounting for 80% of Portfolio
iv. Go for High-Margin but Low-Loss Ratio lines

4. **Culture**

Professionalism. Create a culture of professionalism, ownership, and fairness by harping on the observance of the Golden Rule: "Do unto others as you would want others do unto you" and sense of responsibility without fear.

Compliance. Empowerment of the Internal Audit Department and the Compliance Department to ensure that regulatory compliance, together with Risk Management, is the base mindset of every officer and staff.

5. **A Force for Reforms**

Encourage active participation by the key officers in industry organizations with pushing industry reforms as an underlying motive.

KEY SUCCESS FACTORS

1. **Talent**

Qualified People:

A. Overcome Training obstacles

i. Provide dedicated funding and review the present contract to remove provisions that discourage employee participation in trainings.
ii. Classify the Basics (e.g., Basic Non-Life Seminar, Accounting for Non-Accountants, etc.) as contract-free.
iii. Revise the Training Contract Provisions to limit tenure requirement to one year while a longer contract kicks in when training cost exceeds 20% of annual compensation of the employee.

B. Review Pay Scale

With a lower pay scale compared to industry and even to PNBGen, review and adjust the existing pay scales without busting the cap on GAE as a percentage of the Net Premiums Earned.

2. **Technology for Data Analytics and Digitization**

All the improvements in services and management's decision-making are anchored on a dynamic data processing system and data analytics. To this end, ABIC has already started the initiative way back in the Second Quarter of 2019 with the engagement of SGV for an end-to-end review of the current system. Despite the system's shortcomings, great strides were achieved with the recruitment of a seasoned Data Analyst to head the newly created Data Analytics Unit who has developed a weekly dashboard that has been an important tool for ABIC's Top and Middle Management.

For Year 2020, ABIC's system will undergo a major re-work to assist management in implementing the 2020-2022 Three-Year Plan and enable the Sales Team to use digital mobile devices in Distribution and Channel Management.

3. **Best Practices: Business Process**

Give importance to the use of proven Best Practices by initially, having all the policies and procedures formalized. This was started in 2019 with several policies put in writing and, where necessary, approved by the Board. This will continue until all business policies are ultimately consolidated in a handbook.

4. **Distribution Network: Digital and Physical**

With the system overhaul, the enhancements will include adaptability to mobile business including connectivity to various payment systems. This is part of the final recommendations of the system review that was initiated in 2019. Mobile connectivity will allow ABIC to go beyond the existing brick-and-mortar distribution channels.

5. **Financial Strength**

The continuing program of the Insurance Commission to increase the Minimum Net worth to PhP1.3 billion and, consequently, reduce the number of industry players to well below 50 only means that the future landscape will be left to the big industry players. ABIC must therefore endeavor to become a big player to ensure its survival. Internal growth can take ABIC to that position but the amount of time needed to get there is too long. Thus, putting ABIC at a disadvantage in the interim.

To survive with strength within the next three years, ABIC will either have to get hefty equity infusions from the current stockholders or allow the entry of a Strategic Foreign Partner who can provide expertise, technology, product development, and capital to grow the current portfolio or acquire smaller non-life insurance companies.

FACTORS FOR CONSIDERATION

1. **Threats**

The Blue Ocean of Opportunities is attractive but it will not be easy to swim on for, below the surface, sharks could be lurking. Risks, however, are not there to be avoided but, rather, are there to be managed.

A. Regulatory Risk. The Regulatory Bodies' Strict RPT compliance requirements could dwindle ABIC Captive Market. While this may sound like a threat to ABIC's business, it can be managed and become an opportunity. ABIC can switch to "Broker Mode" for the Captive Market and take advantage of its good financials and the Group's Significant Size to leverage better premium pricing.

B. Increasing Market Competition. The Insurance Commission's continuing program to strengthen and professionalize the industry through increasing Minimum Net Worth can only lead to bigger competitors that could threaten ABIC's sustainability. Growth from production alone will not elevate ABIC to a size that can be at par with growing or already large market players. With its solid financials, ABIC is in a position to acquire smaller industry players to bolster its size or be in a position to choose a strategic foreign partner.

C. Digitization. While ABIC has successfully launched a product that is distributed through a mobile app, the current system is not yet fully ready. However, this was a good step forward and the end-to-end system review conducted by SGV & Company, the country's foremost accounting and consulting firm, is a good first step towards a more future-ready system that is expected to be completed by year end.

D. ASEAN integration. The ASEAN Integration which is bound to happen will definitely put ABIC at a disadvantage but the possibility of getting a strategic foreign partner before that happens is a feasible risk-mitigating move because this will give ABIC the capital resources, access to technology, products, and technical expertise which are necessary to compete.

2. **Opportunities**

A. Untapped Market Potential. The Non-Life Insurance Industry's 2.5% penetration of the country serves as a large opportunity for ABIC. This, however, requires a strategic emphasis on, and identification of, areas where competition remains weak. This is precisely the essence of ABIC's Blue Ocean Strategy. There is a compelling reason to go retail, without sacrificing the big-volume BGAA partnerships in urban centers, to create niches.

B. ASEAN Integration. While a potential threat, is also an opportunity. It offers possible partnerships with regional players and a wider market for ABIC.

3. **Strengths**

A. ABIC's Captive Market provides a baseline income that gives it cushion for uncertainties and the flexibility to define its terms.

B. Solid Financials allow ABIC to take on additional risks, higher retention, and acquire competencies.

C. ABIC's Biggest Strength is the Unity of the Board and Senior Management in the recognition of its weaknesses that is matched by their willingness to change.

4. **Weaknesses**

A. Reliance on a Captive Market

While there is reliance on the Captive Market, this is not exactly a complete dependence since these account for only 65% of ABIC's Gross Production. On the other hand, the Captive Market provides a stable base of income that allows ABIC to take on the Open Market. Secondly, it is a market, especially the LT Group of Companies, that presents a definite renewal business both in good and adverse times.

B. Weak Systems

Having grown internally with focus on a Captive Market, ABIC's Business Processes and Information System leave much to be desired. Fortunately, there is recognition of this inadequacy across the organization from the lowest rank to the Board of Directors. Changes have been made and are expected to accelerate with the completion of an end-to-end review conducted by SGV & Company.

C. Shallow Bench

Aside from, or as a result of, having a lean organization, ABIC lacked the most critical skills and talents to meaningfully fully serve its Captive Market, at the very least, and dream of profitably navigating the Open Market. In 2019, skills were acquired through recruitment and trainings of existing personnel in the areas of Underwriting, Claims Processing, and Sales Support. Moving forward, this will include Sales and Finance & Accounting.

D. Narrow Network

ABIC has only 5 branches which, to a large extent, are really inactive and operates mainly to service the branches of Philippine National Bank (PNB). These are being strengthened to target not only the PNB's bancassurance business but the retail business, as well. A Branch Administration Head and a new set of Branch Heads have been hired for starters.

WORLD'S LARGEST. Behind President Montalbo is the world's largest Filipino-Chinese Friendship Arch which symbolizes the revival of Chinatown's business development, where ABIC's head office is currently situated. This endeavor parallels ABIC's earnest desire to unlock its vast Blue Ocean.

> "The reforms are not done yet but we are poised and ready for our Blue Ocean.
> Now, we can go to the water and swim."
>
> Reynaldo B. Montalbo, Jr.

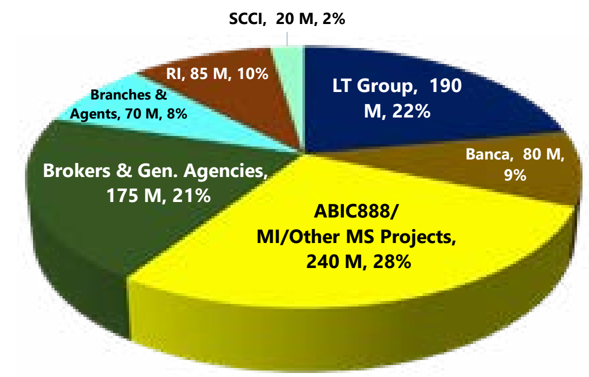
THE YEAR 2020

1. SALES

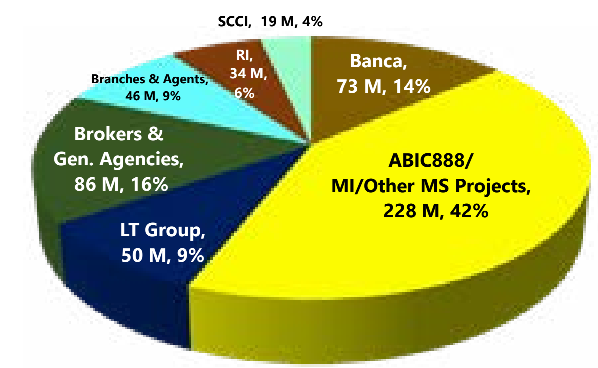
A. Targets

For Year 2020, ABIC Gross Production will be flat from 2019 while expanding the Net Premiums Written by 13% with a concentration on High Retention Low Loss lines.

2020 GPW



2020 NPW

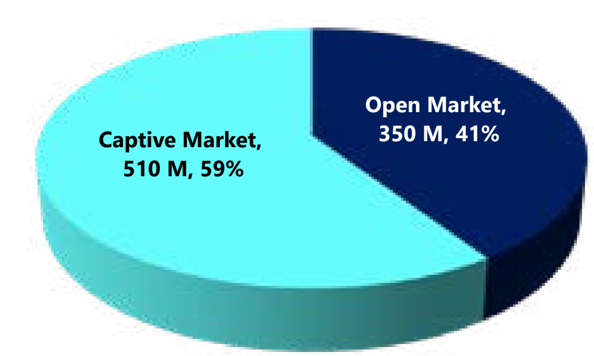


B. Markets

i. Captive Market
ii. Open Market

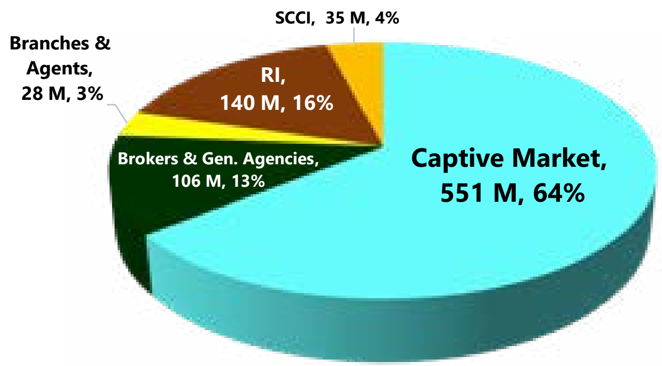
2019 Open Market vs. Captive Market

GPW 2020 Open Market vs Captive Market GPW

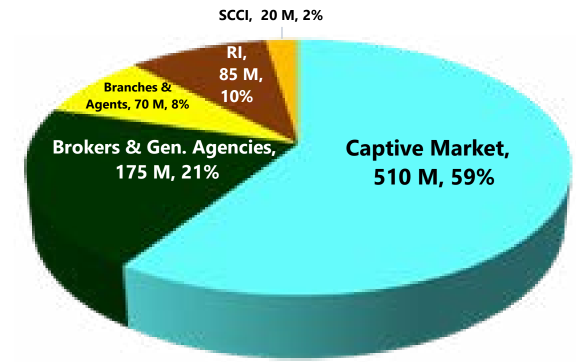


Continue rebalancing the portfolio by increasing ABIC's Open Market footprint while keeping a firm hold of its Captive Market

2019 GPW



2020 GPW

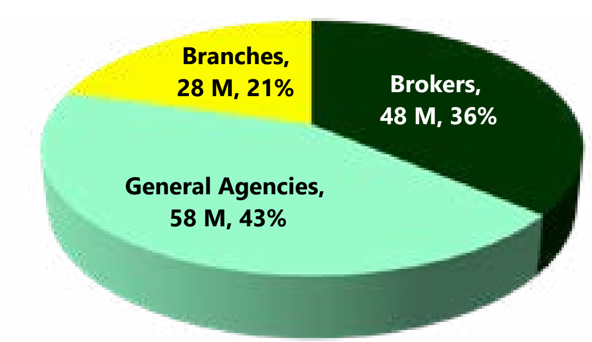


With the necessary Underwriting Policies and Claims Processing TAT in place, ABIC is in a position to expand its foray into the Open Market. At the forefront of this thrust will be the industry's Brokers and Agencies, sizable organizations like cooperatives, and ABIC's own Branch Network.

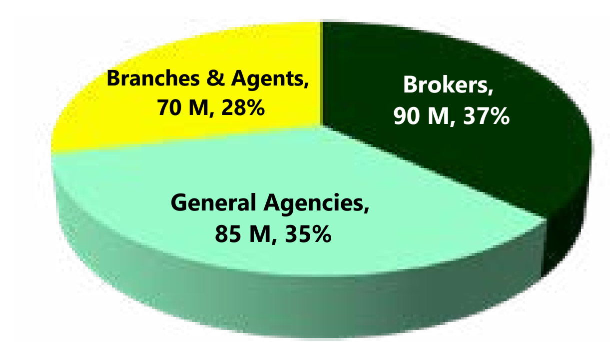
C. Distribution Channels

ABIC will expand its partnerships with Brokers, Dealers, Agencies, and Cooperatives, in addition to its own regional branch network.

2019 Brokers, General Agencies, and Branches GPW



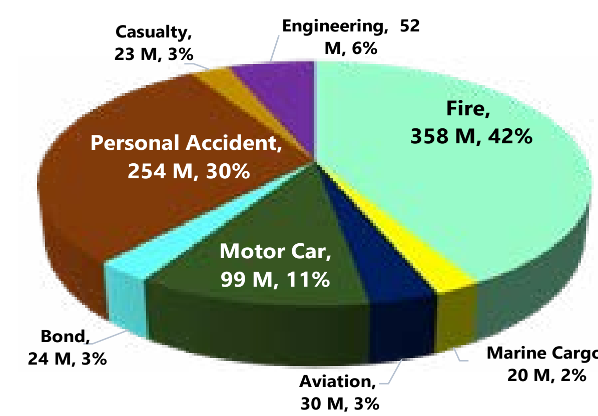
2020 Brokers, General Agencies, Branches & Agents GPW



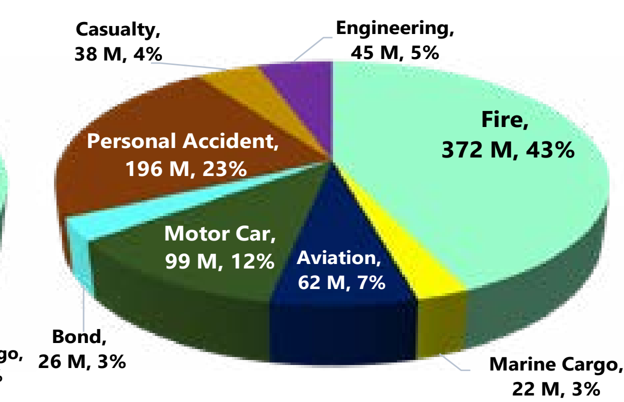
D. Portfolio Mix

ABIC will continue its focus on High-Retention-Low-Loss Ratio products while adding another line to the current Three-Line (Fire-Motor-PA) pillar that underlie ABIC's portfolio. Expertise through recruitment and trainings of existing personnel will be acquired to ensure preparedness and an increase in other lines to further spread ABIC's risk and reduce portfolio risk.

2019 GPW by Line



2020 GPW by Line



Note: The Pre-Covid Budget Plan approved by the Board is under review for a possible downgrade as a result of the quarantine which, at the date of publication, has already been in effect for four months and with no end in sight yet.

2. UNDERWRITING

A. ***Earnings at Risk.*** ABIC will continue to observe an EAR Limit which, given the Y2020 Budget, will be set at PHP35 million per policy.

B. ***Dynamic Pricing***. Premiums must be regularly reviewed, updated, and adjusted according to each sub-line's risk profile, profitability, and accumulation. In Y2020, this will be employed to maximize margins, minimize risks, and constantly redirect sales and marketing efforts towards the year's targets. The weekly and/or monthly monitoring of production, profitability and concentration risks on a sub-line basis, use of RI and RI Brokers' Online Statistical tools will allow ABIC to use Dynamic Pricing based on real-time year-to-date figures.

C. ***Line Expertise***. The competence of the current Underwriting Corps of officers will be enhanced through various trainings offered by IIAP, the Reinsurers in the Treaty Panel, and the Treaty Brokers.

3. **CLAIMS**

A. Turnaround Time ("TAT")

With more than 70% of both motor and non-motor claims paid out within the allotted turnaround time (17 days and 30 days, respectively), this will be further improved by reducing the TAT by 30-40% effective February 2020.

B. Personnel Complement

With the present personnel complement nearing the 120-pax cap, most of the critical competencies are already in place. Further specialization and talent acquisition will be acquired through local and foreign trainings. Such trainings are made available by IIAP, reinsurers, and treaty brokers.

C. Third Party Services

To further improve ABIC's services and shorten turnaround time, various third-party service providers will be employed in the following areas:

i. Recovery

ii. Claims Inspection/Adjustment

4. **INFRASTRUCTURE SUPPORT**

To ensure that the front line in Production and Service Delivery accomplish their mandate, the abilities of IT, Accounting, and HR will be enhanced through the recruitment of talents and enhancement of competencies through trainings.

Note: Pre-Covid Budget Plan approved by the Board. This is under review for a possible downgrade as a result of the quarantine which, at the date of publication, has already been in effect for four months and with no end in sight yet.

Our EMPLOYEES

WORKFORCE DIVERSITY

ABIC aims to create a manpower pool that is fair and attracts the best people to do the job. It recognizes that its talented and diverse workforce is one of its competitive advantages.

ABIC believes in equal employment opportunity and in treating its employees with respect and dignity as individuals and does not tolerate unlawful acts of discrimination.

We draw our capabilities, ideas, and insights from the diverse workforce we have to enhance our decision-making capabilities and business acumen.

ABIC knows the importance of the work-life balance on the well-being of its workforce. At the end of 2018, the new management team started to review and enhance the existing benefits to be enjoyed by the staff and the officers.

The Board of Directors approved the re-packaged benefits. Mandatory vacation leaves, availment of sick leaves and the entitlement amount, and sharing for the maintenance expense and insurance coverage of the car plan for the officers were updated and defined.

There were many "firsts" under the new management team. Long serving employees that have been with the company for 10, 15, 20, 25 and 30 years were recognized and honored for their loyalty, dedication, hard work and contribution to the Company. Each one got their plaque of appreciation and monetary reward. Financial assistance was provided to qualified employees thru a General Purpose Loan (GPL)/ Emergency Loan facility at market rate.

Currently, we have 112 employees that comprises our entire workforce.

MANPOWER COMPLEMENT

TOTAL EMPLOYEES (H.O. & Branches)	**BREAKDOWN** Female	Male
112	**64**	**48**
(Branches)		
Angeles	2	1
Cagayan de Oro	2	
Cebu	1	
Davao	1	2
Lipa	2	

**Total workforce is comprised of regular and probationary employees.*

As ABIC made efforts to reach its goals, mission and vision, it has not forgotten to develop its employees to adjust to the ever-changing environment.

ABIC has sought the expertise of other parties to help its employees grow and increase their technical expertise:

NUMBER OF EMPLOYEES WHO ATTENDED	TRAINING	PERIOD TAKEN
29	**Marine Hull Insurance** Provided the employee with a thorough understanding of the marine hull insurance, its risks, how to manage it, and the legal environment surrounding it.	March 07, 2019
8	**"Doing the things right, Doing the right things" Sales and Marketing Training"**	April 27, 2019
9	**Basic Non-Life Insurance** Provided the employee with the basic knowledge to jumpstart their career in the insurance industry.	May 8 - October 7, 2019
1	**Enterprise Risk Management**	May 09, 2019
34	**Reinsurance Seminar** Provided a basic understanding of the Reinsurance Industry, and how it influences insurance as a whole.	September 26, 2019
3	**Accounting for Non-Accountants** Provided employees with the basic understanding of Accounting.	October 1, 2019
1	**Motor Vehicle Insurance and Claims Seminar** Provided a comprehensive overview for motor insurance and their related claims.	October 11, 2019
2	**Ethical Practices in the Business of Insurance** Provided trainees with a clear understanding on how to ethically conduct our business in the insurance sector.	October 22, 2019
3	**Data Science Training** Provided the attendees with the best practices on data science and how to apply them to the Company.	November 11-12, 2019
1	**Simplified Accounting for Bosses** Provided managers with the basic understanding of Accounting, Finance, Tax, Audit, Budgets, Process and Cash Flow.	November 12-13, 2019
4	**IFRS 17 Training** Provided a comprehensive overview of the changes from IFRS 4 to IFRS 17 and how the company can implement such new accounting standard.	November 8, 2019 - December 12, 2019
9	**Bond and Crimes** Provided lessons on suretyship, which includes, among others, its definition, legal environment, and liability types.	November 22, 2019
2	**Advance People Handling Skills** Provided a foundation on people skills.	December 10-11, 2019

Basic training courses - **Basics of Non-Life Insurance** and **Accounting for Non-Accountants** were made the minimum requirements for qualified employees. Standards for job performance review to fully minimize subjectivity were set. Job Ratings were secured from all the departments contributing to the final rating. Merit increases were aligned with the performance ratings. Overall pay structure is continuously being reviewed and adjusted to align with the industry.

RETIREMENT BENEFIT

The normal retirement benefit is equal to forty five (45) calendar days final basic salary for every year of service with a fraction of six months considered as one year for those 60 years of age or with 30 years of continuous service.

The late retirement benefit is equal to forty five (45) calendar days final basic salary for every year of service with a fraction of six months considered as one year until attainment of 65 years of age.

The early retirement benefit is equal to the following percentage of the accrued normal retirement benefits upon attainment of age 55 with completion of at least 10 years of service or 20 years of service.

RETIREMENT AGE	APPLICABLE PERCENTAGE	COMPLETED YEARS OF SERVICE	APPLICABLE PERCENTAGE
55	85%	20	80%
56	88%	21	82%
57	91%	22	84%
58	94%	23	86%
59	97%	24	88%
		25	90%
		26	92%
		27	94%
		28	96%
		29	98%

HEALTH AND SAFETY

ABIC aims to provide a safe and healthy environment for all employees and visitors.

ABIC has an accredited HMO provider that covers the employees' out-patient and in-patient medical needs. Annual evaluation of our HMO partner is done to gauge its service in providing our medical needs. Annual Physical examinations are done in the office to determine health concerns that need immediate attention and further consultation.

ABIC expects all employees while at work to take practical measures to:

- Ensure their health and safety and that of others;
- Comply with ABIC's health and safety policies and guidelines;
- Ensure that potential or actual hazards and incidents are identified and reported.

Our CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility with the Community and Environment.

ABIC takes into heart its social responsibility as a member of the community, and how we should sustain and preserve our environment. We believe in paying it forward and giving back to others and our surroundings.

We adhere to the laws on our environment and consistently work towards integrating environmental and social considerations to our operations and business decisions.

All employees are strongly encouraged to contribute and reach out to the Company's adopted communities through volunteerism, fundraising, employee donations and grants.

Just before Christmas, the staff and officers trooped to Barangay 204 in Solis, Tondo, Manila to conduct a feeding program for the children in the barangay. The day was well spent playing with the kids and watching them dance. The smiles on the children's faces were priceless when the loot bags and packed lunch were distributed to them.

> "ABIC believes that Corporate Social Responsibility extends beyond monetary support."

Our social responsibility is not confined just among ourselves. We collaborate with our business partners to reach out to a wider segment of our community. Our President and CEO, RBM together with the officers of CodeXL Solutions, Inc., and our Director, Rowena T. Chua visited Bethany Children's Home.

The Home provides alternative accommodation for girls, aged 5-11, who have been sexually abused, and who need to be accommodated temporarily to protect them from further abuse. More than the gifts and food distributed, the visit brought joy, happiness and hope as the girls go through the process of healing and eventual reunion with their families.

ABIC has generously donated to the following:

1. Asian Institute of Management for the benefit of the HERO Foundation, Inc.
2. University of Mindanao
3. LandBank Brokers Outreach Fundraising Program
4. Barangay 204 Feeding Program

ABIC likewise takes care of the youth. It provides "on-the-job training" to graduating students from various colleges by deploying them to the various departments of the Company.

Anti-Corruption Programs

ABIC has established policies and procedures to assist its personnel to implement ABIC's anti-corruption programs, ranging from suppliers/contractors' selection process, protecting creditors' rights and protecting ABIC from illegal activities.

This can be found in the Anti-Fraud, Bribery, Whistle-blowing and Corruption Policy. This establishes the principles and approach for managing and mitigating immoral actions. Acts of fraud, bribery and corruption can greatly impact our profitability and reputation, as well as undermine our customers' confidence in our products and services. There may also be an indirect impact on policy holders through premium increases arising from high claims cost as a result of fraudulent activities.

To this end, the Senior Management Committee was activated to hear and investigate issues arising from fraudulent or illegal activities that will substantially affect the Company.

RISK MANAGEMENT

ABIC maintains a dynamic culture of risk management. Employees are expected to be proactive in identifying and managing risks in their own areas of operations that threaten ABIC's assets and business portfolio. With the creation of action plans, employees are able to eliminate or mitigate those risks simultaneous with assessing and reporting risk gaps and breaches of authority.

Our performance through the years clearly establishes our sound risk management framework. It is embedded in the business. The entire workforce identifies practical strategies to reduce the chance of failure and losses if the risk becomes real. Management strategies, plans and loss procedures are communicated and cascaded to all the stakeholders.

From the latter part of 2018, the following management committees were created with specific tasks to provide a holistic approach to risk management:

1. **Management Committee**
   To review the weekly and monthly performance data of ABIC and provide the venue to discuss and resolve operational concerns;
2. **Senior Management Committee**
   To provide strategic planning and decision-making for ABIC in accordance with its Mission, Vision, and Values and to addresses pressing issues that affects the Company substantially, such as an emerging crisis;
3. **Underwriting Committee**
   To provide advice on the ABIC's underwriting risk management exposure, guidance and support to the Underwriting Department as it carries out its strategies and responsibilities;
4. **Investment Committee**
   To be the prime authority on reviewing, and directing the implementation of ABIC's corporate policies on investing, in the achievement of its investment objective;
5. **IT Steering Committee**
   To direct, review, approve IT strategic plans, budget and prioritization of projects, oversees major initiatives, and allocates resources;
6. **Claims Committee**
   To provide advice, guidance and support to the Claims Department as it carries out its strategies and responsibilities.

Aside from the creation of the Claims Committee, ABIC likewise availed the services of a Legal Counsel to join the committee in all its deliberations and meetings to provide legal guidance in the review and resolution of the filed claim cases.

In 2019, ABIC embarked on a review of its existing underwriting policies with the aim of establishing an all-encompassing underwriting philosophy to govern the conduct of business, which balances revenue-generating Sales and Loss mitigating Underwriting Evaluation. This resulted in elevating Underwriting to an importance that is at par with Sales. As a consequence, a Risk-Reward Huddle between the President, the Head of Sales and Marketing, and the Chief Underwriter became a constant occurrence to balance the need for revenues and the management of risks for various specific proposals.

ABIC likewise adapted the **Earnings at Risk Limit** that anchors a single specific risk to the Annual Income Budget. This was in addition to the Equity-based IC enforced limit of not more than 20% of net worth. The Risk-Reward Huddle, the Underwriting Committee, and the Value at Risk Limit, combined, allowed ABIC to increase retention levels while decreasing the Combined Ratio resulting in a higher profitability position.

The risk management framework of ABIC is evolving at all times. It will continue to identify and revisit strategies, look for emerging or changing exposures, and stay attuned to developments that shall affect the Company's very existence.

Our PRIVACY

ABIC collects, uses and stores personal information on our clients and employees in carrying out our business activities.

We are committed in ensuring that the collection, use and storage of personal information throughout the business is in accordance with the implementing rules and guidelines drawn by the appropriate regulatory bodies.

The Company guarantees at all times the integrity and protection of all information it maintains.

Employees are mandated to ascertain the security and accuracy of personal information collected, recorded and used. Access to such information is restricted within ABIC. Requests to access such information by any third party will only be permitted upon approval by ABIC.

Our ACTUARIAL REVIEW

To comply with Memorandum Circular No. 2016-67 issued by the Insurance Commission (IC) requiring the certification of an actuary, ABIC engaged the actuarial services of JP Wall Consulting Partner in 2018 to adhere with this requirement.

JP Wall Consulting Partner was tasked to provide a duly notarized certification, that they have conducted the necessary tests and validation to verify the reasonableness and integrity of the Company's data, confirm that the information contained in our reports were accurate to the best of their knowledge, and that they have calculated the policy reserves in accordance with the Valuation Standards prescribed by the IC and the standards of practice of the Actuarial Society of the Philippines.

INTERNAL AUDIT

The Internal Audit Department is primarily responsible for ensuring that ABIC's internal control environment is adequate, efficient, and effective. Its main tasks can be summarized in the following areas:

1. **Independent Assessment**

   Responsible for conducting independent assessment on the effectiveness of governance, risk management and internal controls in the organization;

2. **Compliance**

   Responsible for ensuring that regulatory and governance requirements are adhered to including approved internal processes and policies;

3. **Reporting & Monitoring**

   Responsible for ensuring that regular reporting and monitoring are conducted to ensure transparency in the compliance by the organization;

4. **Policies and Procedures**

   Recommends strategies, policies, procedures, and guidelines geared towards design and controls that will support the organizational objectives.

The Internal Audit is generally responsible for the third line of defense in terms of organizational design, controls, risks assessment, and compliance, including audit of compliance role. It supports the Business Process (BP) Department and other Change or Management Committees that are organized to develop initiatives for organizational transformation.

The Internal Auditor is tasked to provide assurance that the governance, risk management, and internal control of the Company are concrete. The Internal Auditor shall provide the President and CEO, the Board of Directors and the Audit Committee with all major findings.

ABIC also has a non-audit engagement with SGV & Co. to perform an enterprise review of the Company. The SGV Risk Advisory Service Team is our partner in reviewing and assessing the current state of our business processes and strengthening our controls against our system for greater efficiency.

The professional fee inclusive of VAT and out of pocket expenses for the 2019 non-audit engagement was estimated at PHP3.2 million.

EXTERNAL AUDITOR INDEPENDENCE

The external auditor of ABIC is selected and appointed by the stockholders upon the recommendation of the Audit Committee of the Board of Directors. For 2019, the Board of Directors appointed Sycip, Gorres, Velayo and Co. (SGV & Co.) as the Company's external auditor.

The external auditor confirms its independence in relation to the December 31 financial reports, which the Audit Committee confirms in a separate enquiry.

The professional fee inclusive of VAT and out of pocket expenses for 2019 year-end audit was estimated at PHP1.66 million.

Our BOARD OF DIRECTORS

The number of directors shall be composed of eleven (11) members according to Section 6 of the Articles of Incorporation and Article 3, Section 1 of the By-Laws of Alliedbankers Insurance Corporation.

Majority of the directors shall be residents of the Philippines, and each director shall own at least one share of stock of the corporation. They shall be elected annually at the annual stockholders meeting, and shall serve for a term of one year until their successors have been qualified and elected.

An independent director shall serve for a maximum cumulative term of nine years as provided for in the Securities and Exchange Commission Memorandum Circular No. 9-11, and thereafter, shall be perpetually barred from re-election as such in the same company, but may continue to qualify as a non-independent director.

Directors are selected to achieve a broad range of skills, experience and expertise complementary to the Company's insurance activities. The curriculum vitae of ABIC's individual directors are found on the succeeding pages and on the Company's website at www.alliedbankers.com.ph

The Chairman of the Board of Director is a non-executive director that oversees the performance of the Board, its committees and each individual director. The roles of the Chairman and the Chief Executive Officer shall, as a general rule, not be combined to ensure a balance of power and authority such that no one person has absolute decision making powers.

CORPORATE GOVERNANCE, REMUNERATIONS AND NOMINATIONS COMMITTEE

Chairman
DR. LUCIO C. TAN

Vice Chairman
MICHAEL G. TAN

Members
ROWENA T. CHUA
HARRY C. TAN
ALFREDO B. JIMENEZ, JR.
REYNALDO B. MONTALBO, JR.
PETER Y. ONG
LUCIO K. TAN, JR.†

AUDIT, COMPLIANCE AND RISK MANAGEMENT COMMITTEE

Chairman
ALFREDO B. JIMENEZ, JR.

Vice Chairman
PETER Y. ONG

Members
MANUEL T. GONZALES†
LUCIO K. TAN, JR.†
MICHAEL G. TAN

RELATED PARTY TRANSACTIONS COMMITTEE

Chairman
PETER Y. ONG

Vice Chairman
ALFREDO B. JIMENEZ, JR.

Members
MANUEL T. GONZALES†
LUCIO K. TAN, JR.†
MICHAEL G. TAN

The Board shall have three (3) independent directors who have not had any of the following relationships with ABIC:

1. previous officer or employee;
2. blood relation to an officer in senior management position;
3. provide services and receive significant income for other professional services.

The Board shall disclose any relationship that could compromise a director's independence.

The Board of Directors together with senior officers of ABIC have attended a training hosted by SGV for Corporate Governance last July 29, 2019. Attendees from ABIC were Reynaldo B. Montalbo, Jr., Rufina T. Yu, Rey DC Erlano, Mabel D. Mendoza, Eileen D. Clemente and Marcelina F. Valles. The Board of Directors was led by Dr. Lucio C. Tan together with Rowena T. Chua, Harry C. Tan, Michael G. Tan, Manuel T. Gonzales, Peter Y. Ong and Atty. Arlene J. Guevarra, the Corporate Secretary.

INVESTMENTS COMMITTEE

Chairman
MICHAEL G. TAN

Members
ROWENA T. CHUA
MANUEL T. GONZALES†
REYNALDO B. MONTALBO, JR.
RUFINA T. YU

Advisers
NOEL C. MALABAG
PNB Head of Global Markets Group
MANUEL LISBONA
PNB Securities

EXECUTIVE COMMITEE

Chairman
REYNALDO B. MONTALBO, JR.

Members
ROWENA T. CHUA
LUCIO K. TAN, JR.†
MICHAEL G. TAN
RUFINA T. YU

NON-EXECUTIVE COMMITEE

Chairman
DR. LUCIO C. TAN

Members
WILLY S. CO
ALFREDO B. JIMENEZ, JR.
MANUEL T. GONZALES†
PETER Y. ONG
MICHAEL G. TAN
LUCIO K. TAN, JR.†

DR. LUCIO C. TAN

Chairman

NATIONALITY

Filipino

EDUCATION

Doctor of Philosophy, Major in Commerce
University of Sto. Tomas, Manila, Philippines

B. S. in Chemical Engineering
Far Eastern University, Manila, Philippines

DATE OF APPOINTMENT

1980

DIRECTORSHIP IN OTHER COMPANIES

Chairman

Absolut Distillers, Inc.
Allianz PNB Life Insurance, Inc.
Air Philippines Corporation
Asia Brewery, Inc.
Asian Alcohol Corporation
Basic Holdings Corporation
Buona Sorte Holdings, Inc.
Eton Properties Philippines, Inc.
Foremost Farms, Inc.
Fortune Tobacco Corporation
Grandspan Development Corporation
Himmel Industries, Inc.
LT Group, Inc.
Lucky Travel Corporation
Mabuhay Maritime Express Transport Inc.
MacroAsia Corporation
PAL Holdings, Inc.
Philippine Airlines, Inc.
PMFTC, Inc.
Progressive Farms, Inc.
Tanduay Brands International
Tanduay Distillers, Inc.
Tangent Holdings Corporation
The Charter House, Inc.
Trustmark Holdings Corporation
University of the East
Zuma Holdings and Management Corporation

Director

Philippine National Bank

WILLY S. CO

Vice-Chairman

NATIONALITY

Filipino

EDUCATION

B. S. in Banking and Finance
University of the East, Manila, Philippines

DATE OF APPOINTMENT

1980

DIRECTORSHIP IN OTHER COMPANIES

Director

Bancasia Finance & Investment Corporation
Central Textile Mills, Inc.
Hermoza Ecozone & Development Corporation
Marketsource Corporation
Pan Asia Securities Corp.
Universal Synthetic & Mfg. Corp.

PREVIOUS POSITIONS

Chairman

Allied Bank Phils. (UK) Plc.
Oceanic Bank

Vice Chairman

Allied Bank Corporation (HK) Ltd.
Allied Banking Corporation
Allied Commercial Bank
Allied Leasing & Finance Corporation

REYNALDO B. MONTALBO, JR.

Director

NATIONALITY

Filipino

EDUCATION

Master in Business Management
Asian Institute of Management
Makati City, Philippines

Master in Strategic Business Economics
University of Asia and the Pacific
Pasig City, Philippines

B. S. in Business Economics
University of the Philippines
Diliman, Quezon City, Philippines

DATE OF APPOINTMENT

2018

PREVIOUS POSITIONS

Deputy Chief Finance Officer
Cirtek Holdings Philippines Corporation

Senior Vice President and Head of Financial Markets
First Metro Investment Corporation

Vice President
FX Trading and Distribution
JG Summit Capital Markets Corporation

Assistant Vice President
Treasury Distribution Division
Philippine Commercial International Bank

Assistant Manager
Citytrust Banking Corporation

ROWENA T. CHUA

Director

NATIONALITY

Filipino

EDUCATION

B. S. in Finance
University of San Francisco,
California, United States of America

DATE OF PPOINTMENT

2006

DIRECTORSHIP IN OTHER COMPANIES

Director
Allianz PNB Life Insurance
PNB General Insurers Co., Inc.

President
Commlinked Inc.

RUFINA T. YU

Director

NATIONALITY

Filipino

EDUCATION

B. S. in Business Administration
Major in Accounting
Far Eastern University, Manila, Philippines
Certified Public Accountant

DATE OF APPOINTMENT

2001

PREVIOUS POSITIONS

Finance Manager
Foremost Farms, Inc.

Assistant Chief Accountant
Fortune Tobacco Corp.

HARRY C. TAN

Treasurer

NATIONALITY

Filipino

EDUCATION

B. S. in Chemical Engineering
Mapua Institute of Technology, Manila, Philippines

DATE OF APPOINTMENT

2009

DIRECTORSHIP IN OTHER COMPANIES

Director
LT Group, Inc.
Absolut Distillers, Inc.,
Allied Commercial Bank
Allied Banking Corporation (Hongkong) Ltd.
Asia Brewery, Inc.
Basic Holdings Corp.
Dominium Realty and Construction Corporation
Eton Properties Philippines, Inc.
Foremost Farms, Inc.
Grandspan Development Corp.
Himmel Industries, Inc.
Manufacturing Services and Trade Corporation
Pan Asia Securities, Inc.
Philip Morris Fortune Tobacco Corp., Inc.
PNB Management Development Corporation
PNB Global Remittance and Financial Company (HK) Ltd.
PNB Savings Bank
Progressive Farms, Inc.
Shareholdings Inc.
Tanduay Brands International
Tanduay Distillers, Inc.

OTHER CURRENT POSITIONS

Chairman
Tobacco Board of Fortune Tobacco International Corp.

Vice Chairman
Belton Communities, Inc.,
Eton City, Inc.
Eton Properties Philippines, Inc.
Lucky Travel Corporation

President
Landcom Realty Corporation
Century Park Hotel

Vice Chairman / Managing Director
The Charter House Inc.

PREVIOUS POSITION

Director
Allied Banking Corporation
MacroAsia Corporation
Philippine Airlines

LUCIO K. TAN, JR.†

(1966-2019)

Director

NATIONALITY

Filipino

EDUCATION

Master of Business Administration
J. L. Kellogg School of Management
Northwestern University, Illinois, U. S. A. /
Hong Kong University of Science & Technology, Hong Kong

B. S. in Civil Engineering
Minor in Classical Chinese
Mandarin & Mathematics
Mapua Institute of Technology, Manila, Philippines

DATE OF APPOINTMENT

1980

POSITIONS HELD

President and Chief Executive Officer
MacroAsia Corporation

President and Chief Operating Officer
Tanduay Distillers, Inc.
Tanduay Brands International

President
Eton Properties Philippines, Inc.
Philippine Airlines, Inc.

Executive Vice President
Fortune Tobacco Corporation

Director
Absolut Distilers, Inc.
Asia Brewery, Inc.
Asian Alcohol Corporation
Foremost Farms, Inc.
Grandspan Development Corporation
Himmel Industries, Inc.
Lucky Travel Corporation
PMFTC, Inc.
Philippine Airlines, Inc.
Philippine National Bank
Progressive Farms, Inc.
Victorias Milling Company, Inc.
Tangent Holdings Corporation
The Charter House, Inc.
Trustmark Holdings Corporation
Shareholdings, Inc.
Zuma Holdings and Management Corporation

MICHAEL G. TAN

Director

NATIONALITY

Filipino

EDUCATION

Bachelor of Applied Science in Civil Engineering
Major in Structural Engineering
University of British Columbia, Vancouver, Canada

DATE OF APPOINTMENT

1993

DIRECTORSHIP IN OTHER COMPANIES

Director
Asia Brewery, Inc.
LT Group, Inc.
Philippine National Bank
MacroAsia Corporation
Victorias Milling Company, Inc.
Tangent Holdings Corp.
PMFTC Inc.
Tanduay Distillers, Inc.
Eton Properties Philippines, Inc.
Sabre Philippines
Lucky Travel Corp.
Maranaw Hotel (Century Park Hotel)
Pan-Asia Securities Corp.
Philippines Airlines, Inc. (PAL)

Chief Operating Officer
Asia Brewery, Inc.

MANUEL T. GONZALES†

(1937-2020)

Director

NATIONALITY

Filipino

EDUCATION

Master of Arts in Economics
Ateneo de Manila University, Makati City, Philippines

B. S. in Commerce
De La Salle University, Manila, Philippines

DATE OF APPOINTMENT

1980

POSITIONS HELD

Director
Allied Banking Corporation
Allied Leasing and Finance Corporation
PNB Securities, Inc.

Board Advisor
PNB-IBJL Leasing and Finance Corporation
PNB-IBJL Equipment Rentals Corporation

Member
Bankers Institute of the Philippines
European Chamber of Commerce of the Philippines
Financial Executives of the Philippines (FINEX)
Management Association of the Philippines (MAP)

ALFREDO B. JIMENEZ, JR.

Independent Director

NATIONALITY

Filipino

EDUCATION

B. S. in Commerce
Major in Management Marketing
San Beda College, Manila, Philippines

Hotel Management
Cornell University, New York,
United States of America

DATE OF APPOINTMENT

2012

DIRECTORSHIP IN OTHER COMPANIES

Director
Bagong Bayan Corporation, Inc.
Pilar Development Corporation, Inc.

PREVIOUS POSITIONS

President
Pilar Development Corporation
Italia Country Club

Director
Banco Filipino Insurance Corporation

Director for Operations
Volks Wagen – Karbayan

Director for Sales
Century Park Sherton Hotel

PETER Y. ONG
Independent Director

NATIONALITY
Filipino

EDUCATION
B. S. in Chemical Engineering
Far Eastern University, Manila, Philippines

DATE OF APPOINTMENT
2012

DIRECTORSHIP IN OTHER COMPANIES
Director
Victoria Milling Corporation
Fortune Tobacco Corporation
Board Adviser
LT Group, Inc.

OTHER POSITIONS
Senior Vice President
Basic Holdings Corporation
Treasurer
Maranaw Hotel and Resorts Corporation

PREVIOUS POSITIONS
Senior Vice President for Production
Fortune Tobacco Corporation
President
Airphil Corporation

ATTY. ARLENE J. GUEVARRA
Corporate Secretary

NATIONALITY
Filipino

EDUCATION
Bachelor of Laws
University of Santo Tomas, Manila, Philippines
Bachelor of Arts - Major in Journalism
University of Santo Tomas, Manila, Philippines
World Banking and Finance Program
Economics Institute, University of Colorado
Colorado, United States of America

DATE OF APPOINTMENT
2006

OTHER POSITION
Vice President
Philippine National Bank - Legal Group
Corporate Secretary
PAN-Asia Securities Corp.
Allied Club, Inc.
Assistant Corporate Secretary
Unimark Investments (SPV-AMC), Inc.

PREVIOUS POSITIONS
Vice President - Legal Division Head
PNB Savings Bank
Corporate Secretary
Allied Banking Corporation
Allied Leasing & Finance Corporation
Director III
Bureau of Treasury

Remuneration Committee

The Remuneration Committee's overall responsibility is to set the remuneration structure for ABIC employees and its key senior personnel and to guarantee that the framework is aligned with ABIC's robust risk management practices and strong business principles.

The committee annually reviews the remuneration policy of ABIC for merit increases, performance rewards and bonuses to ensure that fixed remuneration is relative to the non-life insurance market, and that any compensation increase is parallel to the drawn financial targets of the company.

This committee is updated on the performance of the management's senior personnel who have materially contributed to the operation and financial performance of ABIC.

For the year 2019, the Directors have received per diem for the attendance of the following meetings:

1. Regular Board Meetings – PHP20,000 net of withholding tax
2. Committee Meetings – PHP10,000 net of withholding tax

Diversity Measurement

ABIC is committed in creating a culture of diversity and inclusion within the Company. This contributes to new ways of thinking and new knowledge.

The workplace diversity not only expands the talent pool within our Board of Directors and manpower complement, but it allows each member of the organization to draw from the backgrounds, viewpoints and experiences of fellow team members.

To ensure that ABIC is moving towards healthy diversity, key measurement matrix like recruitment, training, client sourcing have been added as key performance indicators of our senior officers.

COMPOSITION OF THE BOARD OF DIRECTORS

DIVERSITY OBJECTIVES Group Board Positions	31 December 2019	31 December 2018
Male Director	9	9
Female Director	2	2
Female Senior Executive Director	2	2
Female Corporate Secretary	1	1
Group Board Positions	**31 December 2019**	**31 December 2018**
Non-Executive Positions	6	6
Independent Directors	2	2
Executive Directors	3	3

**The third independent director was elected in January 2020.*

Audit Committee

The membership to the Audit Committee is only for non-executive directors. This committee is composed of five members of the Board, two of whom are independent directors. The elected committee Chairman must be an independent director. The committee normally meets four times a year.

The primary role of the Audit Committee is to oversee the authenticity of ABIC's financial reporting process, which includes the folowing:

- The financial reporting to Office of Insurance Commission, Securities & Exchange Commission, the shareholders and to other stake holders;
- Financial reporting risks;
- Accounting policies, practices and disclosures;
- The scope and outcome of external and internal audits.

The Audit Committee has a free and unrestrained access to ABIC's external auditor and likewise for the Internal Auditor and Compliance Department Head to the committee.

Directors' Attendance

The members of the Board of Directors attend and actively participate in its regular and special meetings. For the year 2019, all the Board of Directors attended the meetings more than the 50% requirement below.

Meetings held in 2019					
Type	Regular BOD Meeting	Corporate Governance, Renumerations, and Nominations Committee	Audit, Compliance and Risk Management Committee	Related Party Transactions Committee	Investments Committee
Number of Meetings Held	**12**	**2**	**4**	**3**	**4**
Attendance	**92%**	**100%**	**90%**	**93%**	**95%**
Lucio C. Tan	9	2	-	-	-
Willy S. Co	12	-	-	-	-
Reynaldo B. Montalbo, Jr.	12	-	-	-	4
Rowena T. Chua	12	2	-	-	4
Manual T. Gonzales	12	-	4	3	4
Lucio K. Tan Jr.*	9	2	3	3	-
Michael G. Tan	9	2	3	3	3
Rufina T. Yu	12	-	-	-	4
Alfredo B. Jimenez, Jr.	12	2	4	3	-
Peter Y. Ong	11	2	4	2	-
Harry C. Tan	12	2	-	-	-

**Lucio K. Tan, Jr. passed away on November 2019*

Dividend Policy

The Company's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. The Board of Directors is authorized to declare dividends payable in cash, in property, or in stock to all stockholders on the basis of the outstanding shares held by them. The declaration of dividends including computation of unrestricted retained earnings, is subject to approval of the Insurance Commission, following Sec. 201 of the Amended Insurance Code of the Philippines.

The last cash and stock dividends pay out was done in 2017. No pay-out was done in 2018 and for 2019. The Board of Directors together with the various stockholders have decided that dividends to be paid out from ABIC's surplus profit be reinvested back to the company to meet the increased capitalization required by the Insurance Commission.

Related Party Policy

This policy is enacted to ensure that:

- Related Party and Related Party Transactions (RPTs) are defined and the coverage/scope of the policy is clearly outlined;
- RPTs are conducted on an arms' length basis;
- Potential or actual conflicts of interest which could possibly arise from RPTs are prevented or managed;
- RPTs are properly reviewed and approved by designated authorities; and
- Adequate disclosure is maintained for RPTs in accordance with applicable legal and regulatory requirements.

Whistle-Blowing Policy

All employees have the duty and obligation to report and raise concern against any seen or observed wrongdoing, improper practice and suspected misconduct, while undertaking duties pertaining to their role. Employees, who come across an incident which they believe is either illegal or contrary to Company's guidelines, including the rules and regulations can report it to Management.

All reports or complaints should be made in good faith and with the reasonable belief that inappropriate activity has occurred or may occur in the future.

If the complaint is found to have been made maliciously or in bad faith, the employee who made the report will face appropriate disciplinary action from the Company. This is to avoid any undue injustice to any individual person.

Drop boxes are deployed in the comfort rooms to allow the employees to freely submit their reports. Weekly checking of the drop boxes is done by HRAD to get the written concerns.

Reports are escalated to the Senior Management Committee for review and validation of the concerns raised or meting out of disciplinary action for unfounded complaints.

Our CORPORATE GOVERNANCE POLICY STATEMENT

"We, the Board of Directors and Management of ABIC do hereby commit ourselves to the principles and the best practices contained in the Corporate Governance manual, and acknowledges that it shall be our guide in the attainment of the Company's goals and objectives.

We, the Board of Directors together with the management, employees, and shareholders believe that corporate governance is a necessary component of what constitutes sound strategic business management, and therefore undertake every necessary effort to create awareness and its dissemination within the organization."

Our MANAGEMENT TEAM

WE'VE ONLY JUST BEGUN. President and CEO, RBM, leads the Management Team at the newly renovated William B. Jones Bridge in the City of Manila a few minutes after the sun has risen. Just like the bridge, ABIC has just begun reforming its team members who are competently ready to embark on a swimming expedition on unchartered waters, that is the Open Market. Amidst life's uncertainities, ABIC sends a stronger message of assurance to the insuring public through their new slogan... *We Cover. You Recover.*

MANAGEMENT COMMITTEES

Senior Management Committee

CHAIRMAN
President and CEO
MEMBERS
Head of Accounting & Finance
Head of Sales & Marketing
Head of Underwriting
Managing Director (Ex-Officio)

Management Committee

CHAIRMAN
President and CEO
MEMBERS
Head of Accounting & Finance
Head of Sales & Marketing
Head of Underwriting
Head of Internal Audit
Head of Accounting
Head of Claims
Head of Information Technology
Head of Business Support Services
Head of Human Resources and Administration
Head of Compliance
Head of Branch Operations
Head of Reinsurance
Head of Brokers, General Agencies & Agents

**The Management Committee is composed of the management team together with their "one downs" and selected employees.*

Claims Committee

CHAIRMAN
President and CEO
MEMBERS
Head of Accounting & Finance
Head of Sales & Marketing
Head of Underwriting
Head of Claims
Head of Reinsurance
Consultant Lawyer

Underwriting Committee

CHAIRMAN
President and CEO
MEMBERS
Head of Accounting & Finance
Head of Sales & Marketing
Head of Underwriting
Head of Claims
Line Underwriters

Information Technology Steering Committee

CHAIRMAN
President and CEO
MEMBERS
Head of Accounting & Finance
Head of Sales & Marketing
Head of Underwriting
Head of Claims
Head of Information Technology
Information Technology-Business Analyst

REYNALDO B. MONTALBO, JR.

President & Chief Executive Officer

EDUCATION

Master in Business Management
Asian Institute of Management
Makati City, Philippines

Master in Strategic Business Economics
University of Asia and the Pacific
Pasig City, Philippines

B. S. in Business Economics
University of the Philippines
Diliman, Quezon City, Philippines

DATE OF APPOINTMENT
December 2018

PREVIOUS POSITIONS

Deputy Chief Finance Officer
Cirtek Holdings Philippines Corporation

Senior Vice President and Head of Financial Markets
First Metro Investment Corporation

Vice President
FX Trading and Distribution
JG Summit Capital Markets Corporation

Assistant Vice President
Treasury Distribution Division
Philippine Commercial International Bank

Assistant Manager
Citytrust Banking Corporation

MABEL D. MENDOZA
Vice President
Head, Internal Audit

EDUCATION
B. S. Major in Accounting
St. Paul University, Manila, Philippines
Certified Public Accountant
Management Development Program
Asian Institute of Management
Makati, Philippines

APPOINTMENT
April 2019

PREVIOUS POSITIONS
Vice President
Accounting & Finance Head, Freyfil Corporation
Finance Consultant
Finance Transformation & Strategic Deals
Vice President & Chief Financial Officer
Deutsche Knowledge Services, Pte Ltd
(a subsidiary of Deutsche Bank)
Vice President & Comptroller
JG Summit Capital Markets Corporation
(a subsidiary of JG Summit Holdings)

EILEEN A. SY
Senior Assistant Vice President
Head, Accounting

EDUCATION
B. S. in Accounting
University of the East, Manila, Philippines
Certified Public Accountant

APPOINTMENT
October 2015

PREVIOUS POSITIONS
Assistant Vice President
Compliance, Country Bankers Insurance Corp.
Assistant Vice President
Internal Audit, The Landmark Corp.

RUFINA T. YU
Senior Vice President
Comptroller
Head, Accounting and Finance

EDUCATION
B. S. in Business Administration
Major in Accounting
Far Eastern University, Manila, Philippines
Certified Public Accountant

APPOINTMENT
2001

OTHER POSITIONS
Finance Manager
Foremost Farms, Inc.
Assistant Chief Accountant
Fortune Tobacco Corp.

ROWENA T. CHUA
Executive Vice President

EDUCATION
Bachelor of Science Finance
University of San Francisco,
California, United States of America

APPOINTMENT
January 2006

PREVIOUS POSITIONS
Director
Allianz PNB Life Insurance
Director
PNB General Insurers Co., Inc.
President
Commlinked Inc.

REY DC ERLANO
Senior Vice President
Head, Sales & Marketing

EDUCATION
B. S. in Mechanical Engineering
University of the Philippines,
Dlliman, Quezon City, Philippines

APPOINTMENT
December 2018

PREVIOUS POSITIONS
First Vice President
Sales and Marketing
First Metro Asset Management, Inc.
Vice President
Strategic Services
First Metro Asset Management, Inc.
Assistant Vice President
Agency Head, Manulife Philippines
Business Development Manager
Generali Pilipinas Insurance, Philippines

EILEEN D. CLEMENTE
Vice President
Head, Underwriting

EDUCATION
B. S. in Applied Mathematics
De La Salle University, Manila, Philippines

APPOINTMENT
January 2019

PREVIOUS POSITIONS
Vice President
MAPFRE Insular Insurance Corporation
Vice President
National Reinsurance Corporation
of the Philippines
Assistant Vice President
CLG Direct, Generali Pilipinas Insurance

MARIO J. KATIGBAK†

(1957-2020)

Assistant Vice President
Head, Strategic Partnership and Business Development

EDUCATION
Master in Business Administration
Ateneo Graduate School of Business
Makati CIty, Philippines
A. B. Major in Behavioral Science
De La Salle University, Manila, Philippines
B. S. in Commerce
Major in Management of Financial Institutions
De La Salle University, Manila, Philippines

APPOINTMENT
November 2011

PREVIOUS POSITIONS
Vice President
Bank Relations, PNB Life Insurance, Inc.
Retail Banking
Alliedbanking Corporation

RAFFY G. KATIGBAK

Assistant Vice President
Head, Claims

EDUCATION
B. S. in Business Administration
Major in Marketing
Polytechnic University of the Philippines,
Manila, Philippines

APPOINTMENT
August 2019

PREVIOUS POSITIONS
Assistant Vice President
Claims, MAPFRE Insular Insurance Corporation
Section Head
BPI/MS Insurance Corporation

ROSALIE M. QUICHO

Assistant Vice President
Head, Business Support Services

EDUCATION
B. S. in Statistics
University of the Philippines,
Diliman, Quezon City, Philippines

APPOINTMENT
December 2018

PREVIOUS POSITIONS
Manager
Financial Analytics,
The Mercantile Insurance Co., Inc.
Senior Manager
Treasury Analytics,
First Metro Investment Corporation

MARCELINA F. VALLES

Assistant Vice President
Head, Corporate Compliance

EDUCATION
B. S. in Accounting
University of the East,
Manila, Philippines
Certified Public Accountant

APPOINTMENT
May 2016

PREVIOUS POSITIONS
Financial Comptroller and Compliance Officer
QBE Insurance Philippines
Accounting Manager
Federal Insurance Co., Inc.
Accounting Manager
Royal International Insurance Holdings, Ltd.

DANILO J. CABERO

Assistant Vice President
Head, Reinsurance

EDUCATION
B. S. in Accounting
Far Eastern University of the Philippines,
Manila, Philippines

APPOINTMENT
April 2018

PREVIOUS POSITIONS
Deputy Chief Underwriting Officer
Republic Surety and Insurance, Inc.
Vice President
National Reinsurance Corporation
of the Philippines

INDUSTRY AFFILIATION
President
Society of Underwriters for
Property & Casualty Insurance, Inc.

GIOVANNI P. MIRANDA

Assistant Vice President
Head, Brokers & General Agencies

EDUCATION
B. S. in Civil Engineering
Mapua Institute of Technology
Manila, Philippines

APPOINTMENT
July 2016

PREVIOUS POSITIONS
Senior Marketing Manager
Corporate Guarantee & Insurance Co, Inc.
Assistant Marketing Manager
FLT Prime Insurance Corp.

JOEL L. LABANDA
Assistant Vice President
Head, Human Resources and Administration

EDUCATION
B. S. in Business Administration
University of Santo Tomas,
Legaspi City, Philippines

APPOINTMENT
September 2018

PREVIOUS POSITIONS
Head
Human Resources Compensation & Benefits
Alliedbank Corporation
Consultant
Allied Banking Corporation-PNB Merger

RODRIGO N. MANGAHAS
Assistant Vice President
Head, Information Technology

EDUCATION
B. S. in Mathematics
University of Santo Tomas,
Manila, Philippines

APPOINTMENT
January 2017

PREVIOUS POSITIONS
Project Manager
Infoman
IT Consultant & Programmer
Pepsi Cola Products Philippines, Inc.

MARCELINO N. DAYRIT
Assistant Vice President
Head, Branch Operations

EDUCATION
B. S. in Business Administration
Major in Marketing Management
Philippine School of Business Administration,
Quezon City, Philippines

APPOINTMENT
July 2019

PREVIOUS POSITIONS
Quezon City Branch Head
Charter Ping An Insurance Corporation
Regional Operations Head
The Mercantile Insurance Co., Inc.
Sales Head
MAPFRE Insular Insurance Corporation

Our 2019 FINANCIAL STATEMENTS

Alliedbankers Insurance Corporation

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

Building a better working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Alliedbankers Insurance Corporation

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Alliedbankers Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
SEC Accreditation No. 0926-AR-3 (Group A),
July 25, 2019, valid until July 24, 2022
Tax Identification No. 178-486-666
BIR Accreditation No. 08-001998-81-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 8125286, January 7, 2020, Makati City

July 11, 2020

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31 2019	December 31 2018
ASSETS		
Cash and cash equivalents (Notes 4, 24 and 25)	**₱439,538,290**	₱536,993,631
Short-term Investments (Notes 5 and 24)	**126,589,724**	–
Insurance receivables – net (Notes 6, 24 and 25)	**577,869,893**	577,316,724
Financial assets (Note 7 and 24)		
Financial assets at fair value through profit or loss	**227,151,152**	220,683,979
Available-for-sale financial assets	**929,238,723**	727,715,509
Loans and receivables	**161,311,498**	174,559,592
Accrued income (Note 8)	**7,969,168**	9,323,256
Reinsurance assets (Notes 9 and 14)	**443,426,725**	368,091,356
Deferred acquisition costs (Note 10)	**30,036,624**	26,537,688
Property and equipment – net (Note 11)	**27,051,184**	24,470,405
Deferred tax assets – net (Note 23)	**36,264,920**	14,448,099
Net pension asset (Note 22)	–	963,671
Other assets (Note 12)	**133,387,761**	64,649,494
	₱3,139,835,662	₱2,745,753,404
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 14, 16 and 24)	**₱782,051,725**	₱594,670,823
Accounts payable and accrued expenses (Notes 13, 24 and 25)	**380,744,527**	283,944,478
Insurance payables (Notes 15 and 24)	**229,154,062**	301,256,571
Income tax payable	**21,961,624**	–
Deferred reinsurance commissions (Note 10)	**19,585,277**	14,706,719
Dividends payable (Note 17)	**19,237,343**	19,237,343
Net pension liability (Note 22)	**4,156,157**	–
	1,456,890,715	1,213,815,934
Equity		
Capital stock (Notes 17 and 27)	**470,000,000**	470,000,000
Subscribed capital stock (Note 17)	**165,537,500**	165,537,500
Contributed surplus (Note 17)	**441,615,510**	441,615,510
Revaluation reserve on AFS financial assets (Note 7)	**40,705,126**	10,048,184
Remeasurement gains (losses) on defined benefit plan (Note 22)	**(3,335,096)**	4,578,414
Retained earnings	**568,421,907**	440,157,862
	1,682,944,947	1,531,937,470
	₱3,139,835,662	₱2,745,753,404

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31 2019	Years Ended December 31 2018
REVENUES		
Gross earned premiums	**₱743,634,926**	₱614,753,414
Reinsurers' share of gross earned premiums	**(369,800,235)**	(357,312,672)
Net earned premiums (Note 18 and 25)	**373,834,691**	257,440,742
Investment income - net (Note 19)	**71,856,240**	40,412,680
Commission income (Note 10)	**57,000,772**	37,095,798
Miscellaneous income (Note 15)	**24,486,005**	2,224,935
Other underwriting income	**17,491,946**	2,104,187
Foreign exchange gain (loss) - net	**(642,913)**	3,045,123
Others	**223,481**	60,298
Other income	**170,415,531**	84,943,021
	544,250,222	342,383,763
BENEFITS, CLAIMS AND EXPENSES		
Gross insurance benefits and claims paid	**120,808,636**	88,770,800
Reinsurers' share of gross insurance benefits and claims paid	**(49,196,085)**	(21,100,125)
Gross change in insurance contract liabilities	**71,291,355**	74,696,438
Reinsurers' share of gross change in insurance contract liabilities	**(56,204,828)**	(51,986,432)
Net insurance benefits and claims (Notes 9, 14 and 20)	**86,699,078**	90,380,681
General and administrative expenses (Notes 21 and 26)	**157,214,655**	103,628,156
Commission expense (Notes 10 and 25)	**67,315,665**	54,824,038
Underwriting expenses	**62,730,171**	9,461,469
Interest expense (Notes 15 and 22)	**1,069,860**	917,834
Expenses	**288,330,351**	168,831,497
	375,029,429	259,212,178
INCOME BEFORE INCOME TAX	**169,220,793**	83,171,585
PROVISION FOR INCOME TAX (Note 23)	**40,956,748**	21,442,574
NET INCOME	**₱128,264,045**	₱61,729,011

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31 2019	2018
NET INCOME	**₱128,264,045**	₱61,729,011
OTHER COMPREHENSIVE INCOME		
To be reclassified to profit or loss in subsequent periods:		
Net change in the fair value of AFS financial assets (Note 7)	**28,407,673**	(20,020,564)
Valuation gain (loss) realized through profit or loss:		
Impairment loss (Notes 7 and 19)	**11,470,015**	5,923,487
Gain on sale of AFS financial assets (Note 7)	**(9,220,746)**	(2,188,181)
	30,656,942	(16,285,258)
Not to be reclassified to profit and loss in subsequent periods:		
Change in remeasurement gains on defined benefit plan (Note 22)	**(11,305,015)**	4,288,993
Income tax effect (Note 22)	**3,391,505**	(1,286,698)
	(7,913,510)	3,002,295
	22,743,432	(13,282,963)
TOTAL COMPREHENSIVE INCOME	**₱151,007,477**	₱48,446,048

See accompanying Notes to Financial Statements.

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

	Capital stock (Note 17)	Subscribed capital stock (Note 17)	Contributed surplus (Note 17)	Revaluation reserve on AFS financial assets (Note 7)	Remeasurement gain (loss) on defined benefit plan (Note 22)	Retained earnings	Total
Balance at January 1, 2019	**₱470,000,000**	**₱165,537,500**	**₱441,615,510**	**₱10,048,184**	**₱4,578,414**	**₱440,157,862**	**₱1,531,937,470**
Net income for the year	–	–	–	–	–	**128,264,045**	**128,264,045**
Other comprehensive income (loss)	–	–	–	**30,656,942**	**(7,913,510)**	–	**22,743,432**
Total comprehensive income	–	–	–	**30,656,942**	**(7,913,510)**	**128,264,045**	**151,007,477**
Balance at December 31, 2019	**₱470,000,000**	**₱165,537,500**	**₱441,615,510**	**₱40,705,126**	**₱(3,335,096)**	**₱568,421,907**	**₱1,682,944,947**
Balance at January 1, 2018	₱470,000,000	₱165,537,500	₱441,615,510	₱26,333,442	₱1,576,119	₱378,428,851	₱1,483,491,422
Net income for the year	–	–	–	–	–	61,729,011	61,729,011
Other comprehensive income (loss)	–	–	–	(16,285,258)	3,002,295	–	(13,282,963)
Total comprehensive income	–	–	–	(16,285,258)	3,002,295	61,729,011	48,446,048
Balance at December 31, 2018	₱470,000,000	₱165,537,500	₱441,615,510	₱10,048,184	₱4,578,414	₱440,157,862	₱1,531,937,470

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱169,220,793**	₱83,171,585
Adjustments for:		
Provision for claims IBNR and MfAD (Note 14)	**23,755,573**	11,275,170
Provision for bad debts (Notes 6 and 21)	**27,192,124**	–
Impairment loss (Notes 7 and 19)	**11,470,015**	5,923,487
Pension expense (Notes 21 and 22)	**4,542,043**	5,724,671
Depreciation and amortization (Notes 11 and 21)	**3,798,872**	3,241,043
Interest expense (Notes 15 and 22)	**1,069,860**	917,834
Unrealized foreign exchange loss (gain)	**1,018,128**	(3,045,123)
Gain on disposal of PPE	**(15,429)**	–
Changes in fair value of financial assets at FVPL(Notes 7 and 19)	**(6,467,173)**	16,276,834
Gain on sale of AFS financial assets (Note 7)	**(9,220,746)**	(2,188,181)
Dividend income (Note 19)	**(14,080,943)**	(15,558,587)
Interest income (Note 19)	**(53,628,608)**	(44,866,233)
Operating income before changes in working capital	**158,654,509**	60,872,500
Decrease (increase) in:		
Insurance receivables	**(27,745,293)**	(119,361,693)
Loans and receivables	**14,168,196**	26,141,248
Reinsurance assets	**(21,920,187)**	(89,320,166)
Deferred acquisition costs	**(3,498,936)**	(3,850,907)
Other assets	**(68,738,267)**	(15,637,774)
Increase (decrease) in:		
Insurance contract liabilities	**110,210,146**	137,417,974
Accounts payable and accrued expenses	**96,800,049**	40,942,070
Insurance payables	**(72,102,508)**	71,850,937
Deferred reinsurance commissions	**4,878,558**	3,114,433
Net cash generated from operations	**190,706,267**	112,168,622
Contributions to plan assets (Note 22)	**(10,656,015)**	(10,318,996)
Income taxes paid	**(37,420,440)**	(13,258,951)
Interest paid	**(1,069,860)**	(495,013)
Net cash provided by operating activities	**141,559,952**	88,095,662
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	**13,160,841**	14,670,491
Interest received	**55,025,934**	43,229,126
Proceeds from disposal/maturities of:		
Financial assets at FVPL	–	1,748,096
AFS financial assets (Note 7)	**246,496,453**	53,329,412
Property and equipment (Note 11)	**256,500**	496,889
Acquisitions of:		
Short-term investments (Note 5)	**(126,589,724)**	–
AFS financial assets (Note 7)	**(419,726,447)**	(99,721,982)
Property and equipment (Note 11)	**(6,620,722)**	(6,496,880)
Net cash provided by (used in) investing activities	**(237,997,165)**	7,255,152
CASH FLOWS FROM FINANCING ACTIVITY		
Dividends paid (Notes 17 and 29)	–	(45,449,955)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(1,018,128)**	3,898,214
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(97,455,341)**	53,799,073
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**536,993,631**	483,194,558
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱439,538,290**	₱536,993,631

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Alliedbankers Insurance Corporation (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 2010 primarily to engage in the business of non-life insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events and to act as agent to other insurance or surety companies, or any of its branches, including life insurance. It includes lines such as health, accident, fire and allied lines, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks.

The registered office address of the Company is 17th Floor Federal Tower Condominium, Dasmariñas St. corner Muelle de Binondo, Binondo, Manila.

The accompanying financial statements were authorized for issuance by the Board of Directors (BOD) on July 11, 2020.

Combination/merger/acquisition of PNB General Insurers, Inc. ("PNB Gen")
On October 11, 2017, the BOD approved the combination/merger/acquisition by the Company of PNB Gen by way of share swap or combination of share swap and cash, subject to regulatory compliance and acceptable independent valuation ranges.

In 2019, the parties discussed the form of the combination and the BOD approved the terms of the final offer for a cash acquisition of 100% of PNB Gen's shares owned by PNB and PNB Holdings, based on independent valuation ranges in September 2019. PNB and PNB Holdings, in their letter dated September 20, 2019, declined the offer, in view of PNB's mandate to conduct the required price discovery process with other possible acquirers.

The parties subsequently cancelled the original offer of combination through merger and/or acquisition of PNB Gen.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and fair value through profit or loss (FVPL) which have been measured at fair value and pension liability which is measured at the present value of the defined benefit obligation.

The Company's presentation and functional currency is the Philippine peso (₱). All amounts are rounded off to the nearest peso unit, unless otherwise indicated.

The Company presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve (12) months after the reporting date and more than twelve (12) months after the reporting date is presented in Note 28.

The financial statements provide comparative information in respect of the previous period.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to PFRSs which became effective on January 1, 2019. The Company did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, these new and revised accounting standards did not have an impact on the Company's financial statements.

- PFRS 16, *Leases*

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

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. The Company does not have any activities as a lessor as at transition date.

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

  The Company entered into a one (1) year contract for the lease of its office space from June 1, 2019 to May 31, 2020 which is renewable upon mutual agreement of the parties.

  Upon adoption of PFRS 16, these lease contracts are short-term leases as at transition date. The Company applied the available practical expedient wherein it applied the short-term lease exemption to leases with lease term that ends within 12 months of the date of initial application. Refer below for the accounting policy beginning January 1, 2019.

  Based on the above, the adoption of PFRS 16 did not have an impact for leases where the Company is the lessee as at January 1, 2019.

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

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

  - whether the Company considers uncertain tax treatments separately;
  - the assumptions the Company makes about the examination of tax treatments by taxation authorities;

  - how the Company determines taxable income (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - how the Company considers changes in facts and circumstances

  The Company is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

  Upon adoption of the Interpretation, the Company has assessed whether it has any uncertain tax position and applied significant judgment in identifying uncertainties over its income tax treatments. Based on its assessment and in consultation with its tax counsel, the Company determined that it is probable that its income tax treatments will be accepted by the taxation authorities. Accordingly, the Interpretation did not have an impact on the financial statements of the Company.

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

Future Changes in Accounting Policies
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2020

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

Effective beginning on or after January 1, 2023

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

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

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

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

The Company started a project to implement PFRS 17 and has been performing an impact assessment of the new standard. The Company expects that the new standard will result in a significant change to its accounting policies for insurance contract liabilities and is likely to have a significant impact on profit and total equity together with the presentation and disclosure.

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*

<u>Accounting Standard Effective but not yet Adopted</u>

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

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

  The Company met the eligibility criteria of the temporary exemption from PFRS 9 and intends to defer the application of PFRS 9 until the effective date of the new insurance contracts standard (PFRS 17) of annual reporting periods beginning on or after January 1, 2021, applying the temporary exemption from applying PFRS 9 as introduced by the amendments to PFRS 4 (see below).

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard, before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018.

An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

Qualifying for temporary exemption from PFRS 9

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 for annual periods beginning before January 1, 2022.

The assessment for whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity's total liabilities. An entity may elect the temporary exemption if, and only if:

- The carrying amount of its liabilities arising from contracts within the scope of PFRS 4 is significant compared to the total carrying amount of all its liabilities; and

- The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all of its liabilities is:

  - Greater than 90 percent; or
  - Less than or equal to 90 percent but greater than 80 percent, and the insurer does not engage in a significant activity unconnected with insurance.

The predominance assessment is performed using the carrying amounts of liabilities reported on the statement of financial position at the annual reporting date December 31, 2015. Applying the requirements, the Company performed the predominance assessment using the Company's statement of financial position as of December 31, 2015.

The Company concluded that it still qualifies for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As at December 31, 2015, the Company's gross liabilities arising from insurance activities represented 94% of the total carrying amount of all its liabilities. Since December 31, 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

Fair value disclosures

The following table presents an analysis of the fair value of classes of financial assets as of December 31, 2019, as well as the corresponding change in fair value for the year ended December 31, 2019. In the following table, the amortized cost of cash and cash equivalents, insurance receivables and loans and receivables has been used as a reasonable approximation to fair value. The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and

- All financial assets other than those specified in SPPI above (i.e. those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis)

	SPPI financial assets		Other financial assets	
	Fair value	Change in fair value	Fair value	Change in fair value
Loans and receivables				
Cash and cash equivalents	₱439,538,290	₱–	₱–	₱–
Short-term investments	126,589,724	–	–	–
Insurance receivables	577,869,893	–	–	–
Loans and receivables – net	161,311,498	–	–	–
Financial assets at FVPL	–	–	227,151,152	6,467,173
AFS financial assets				
Debt securities	723,957,062	15,085,436	–	–
Equity securities	–	–	205,281,661	13,322,238
	₱2,029,266,467	₱15,085,436	₱432,432,813	₱19,789,411

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

	Investment Grade	Non-investment grade	Past due or impaired	Total
Loans and receivables				
Cash and cash equivalents	₱439,538,290	₱–	₱–	₱439,538,290
Short-term investments	126,589,724	–	–	126,589,724
Insurance receivables	–	577,869,893	35,937,416	613,807,309
Loans and receivables	150,000,000	11,311,498	–	161,311,498
Financial assets at FVPL				
Term notes	58,812,621	–	–	58,812,621
AFS financial assets				
Government debt securities	286,699,587	–	–	286,699,587
Private debt securities	437,257,475	–	–	437,257,475
	₱1,498,897,697	₱589,181,391	₱35,937,416	₱2,124,016,504

The following table provides information on the fair value and carrying amount under PAS 39 for those SPPI assets that do not have low credit risk as determined by the Company. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss.

	Carrying amount	Fair value
Loans and receivables		
Cash and cash equivalents	₱439,538,290	₱439,538,290
Short-term investments	126,589,724	126,589,724
Insurance receivables	613,807,309	613,807,309
Loans and receivables	161,311,498	161,311,498
Financial assets at FVPL		
Term notes	₱58,812,621	₱58,812,621
AFS financial assets		
Government debt securities	286,699,587	286,699,587
Private debt securities	437,257,475	437,257,475
	₱2,124,016,504	₱2,124,016,504

(Forward)

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Foreign Currency Transactions and Translations
Transactions in foreign currencies are initially recorded in Philippine peso at exchange rate at the date of the transaction. Outstanding foreign currency denominated monetary assets and liabilities are retranslated at the closing exchange rate at the reporting date. Outstanding foreign currency denominated nonmonetary items that are measured in terms of historical cost are translated using the exchange rate at the date of initial transaction and are not subsequently restated. Outstanding foreign currency denominated nonmonetary items measured at fair value are translated using the exchange rate at the date when the fair value was determined. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income.

Fair Value Measurement
The Company measures financial instruments, including AFS financial assets and financial assets at FVPL, at fair value at each reporting date.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Company.

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

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

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

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

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

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

Cash and Cash Equivalents
Cash and cash equivalents are carried in the statement of financial position at face amount or nominal amount. Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value and are free of any encumbrances.

Short-term Investments
Short-term investments are made for periods ranging more than three (3) months and up to twelve (12) months and earn interest at the respective short-term investment rates which is not restricted as to use.

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

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

Financial Instruments – Recognition and Measurement
Date of recognition
Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition
Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). The initial measurement of financial assets includes transaction costs except for financial assets at fair value through profit or loss (FVPL).

The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, held-to-maturity (HTM) investments, and loans and receivables. The Company classifies its financial liabilities as 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 investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting period.

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

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

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

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss. Interest earned on holding AFS debt securities are reported as interest income using the effective interest method. Dividends earned on holding AFS equity securities are recognized in profit or loss as dividend income when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported in the statement of comprehensive income. Losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held-for-trading, nor

designated as AFS financial assets or at financial assets at FVPL. This accounting policy relates to the statement of financial position 'Cash and cash equivalents', 'Short-term investments', 'Insurance receivables', 'Loans and receivables' and 'Accrued income'.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate 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 effective interest rate. Amortization is included in the interest income in profit or loss. The losses arising from impairment of such loans and receivables are recognized in the profit or loss.

Other financial liabilities
Issued financial instruments or their components, which are not held for trading or designated as FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no significant insurance risk.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2019 and 2018, the Company's other financial liabilities include insurance contract liabilities, insurance payables, accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other accounting standards, such as provisions, pension liability and income tax payable), and dividends payable.

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

A financial instrument is classified as debt if it has a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- if the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that is has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counter parties.

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

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

In the case of debt instruments classified as AFS, 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 "Investment income" in profit or loss. If, in a subsequent period, 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 of loss, the impairment loss is reversed through profit or loss.

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as a difference between the assets' carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the date of reversal.

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

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

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a 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.

Reinsurance Assets

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

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

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

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

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

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

Deferred Acquisition Costs and Deferred Reinsurance Commission

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

Subsequent to initial recognition, these costs are amortized using the 24th method for policies with a term of exactly one year, otherwise, 365th method is used. Amortization is charged to profit or loss. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the statement of financial position. Reinsurance commissions are deferred and shown in the statement of financial position as "Deferred reinsurance commissions", subject to the same amortization method as the related acquisition costs.

Prepayments

Prepayments represent 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 profit or loss as these are consumed in operations or expire with the passage of time depending on the terms of the related agreements, if covered by a contract.

Property and Equipment

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

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

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

	Years
Condominium units	50
Furniture, fixtures and equipment	10
Electronic data processing (EDP) equipment	5-10
Leasehold improvements	10 or the term of the lease, whichever is shorter
Transportation equipment	5

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

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

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

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

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

Impairment of Non-Financial Assets
At each reporting period, the Company assesses whether there is any indication that nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed for the cash generating unit to which the asset belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit). An impairment loss is charged against operations in the year in which it arises.

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

Creditable Withholding Taxes
Creditable withholding pertains to the taxes paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. Creditable withholding taxes are recorded at cost as "Other Assets" in the statement of financial position.

At each end of the tax reporting deadline, creditable withholding taxes may either be offset against future income tax payable or be claimed as a refund from taxation authorities at the option of the Company. If creditable withholding taxes are claimed as a refund, these will be recorded as a receivable under "Loans and receivable" in the statement of financial position.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of creditable withholding taxes. If any indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. The Company provides the unrecoverable creditable withholding taxes through valuation account. Factors which primarily affect the recoverability of these assets include the completeness of the supporting documentation (certificates of creditable tax withheld at source subject to rules on Philippine income taxation). A review to determine the adequacy of allowance is made by the Company on a continuing basis year on year.

Value-Added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

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

Provisions for claims reported, provision for claims Incurred But Not Reported (IBNR) losses, claims handling expense (CHE) and Margin for Adverse Deviation (MfAD)
Provisions for claims reported are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of each reporting date. The liability is not discounted for the time value of money.

Provision for claims IBNR pertains to amount provided for claim events that have occurred but have not been reported to the Company as of the reporting date. The provision for claims IBNR at each reporting date is calculated by an independent actuary accredited by the IC using standard actuarial projection techniques (or combination of such techniques), including but not limited to the chain ladder method, the expected loss ratio approach, and the Bornhuetter-Fergusion method. The actuary determines the appropriateness of the method used by considering the characteristics of the Company's claims data and other factors such as maturity of the business, large losses arising from significant past events, operational changes in claims and underwriting processes and external conditions.

The Company shall include an MfAD to allow for inherent uncertainty of the best estimate of the policy reserves which shall be determined by an independent actuary at least on an annual basis based on standard projection techniques or combination of such techniques such as, but not limited to, the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the policy liabilities at the 75% level of sufficiency.

Provision for claims handling expense (CHE) is also calculated by the actuary to cover estimated expenses of settling all claims, both reported and unreported, outstanding as of the reporting date.

Quarterly, an actuarial valuation is performed on the gross and net claims and premium liabilities to ensure that the reserves are in compliance with the Valuation Standards for Non-Life Insurance Policy Reserves as required by the IC guided by Sections 219 and 220 of the Amended Insurance Code (Republic Act (RA) No. 10607) along with Circular Letters No. 2018-18 and No. 2018-19. Additional reserves are set up if the result of the actuarial investigation shows that the existing balances are not in accordance with the mandate of IC.

Claim Cost Recognition
Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when the insured events occur.

An insurance contract remains in force at the inception date of policy until its maturity or expiry regardless of the number of the claims reported and, for as long as the coverage is sufficient.

Premium liabilities
Premium liabilities is equal to the provision for unearned premiums plus the difference between the provision for unexpired risk and the provision for unearned premiums, net of deferred acquisition costs, if the provision for unexpired risk is greater than the provision for unearned premiums net of deferred acquisition costs. Otherwise, it is equal to the provision for unearned premiums.

Provision for unearned premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from policy contracts with a term of exactly one year are recognized as revenue over the period of the contracts using the 24th method, otherwise, 365^{th} method is used. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in statement of financial position. The change in the provision for unearned premiums is taken to 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.

Provision for unexpired risk
Provision for unexpired risk (URR) is the best estimate that relates to expected future claim payments and related expenses to be incurred after the valuation date, arising from future events. This shall be calculated as the best estimate of future claims and expenses for all classes of business, with MfAD.

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

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

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

<u>Equity</u>
Capital stock
Capital stock represents the value of shares that have been issued at par. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of the transaction and are deducted first from additional paid-in-capital

Contributed surplus
Contributed surplus represents the original contribution of the stockholders of the Company, in addition to the paid-up capital stock.

Retained earnings
Retained earnings represent the cumulative balance of net income or loss of the Company, effects of any change in accounting policy and other adjustment affecting the account such as dividend distribution.

Revenue Recognition
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

Other income
Income from other sources is recognized when earned.

Other underwriting income
Other underwriting income pertains to income other than premiums but related to the issuance of policy. These are recognized as income when earned.

The following revenue accounts are outside the scope of PFRS 15:

Premiums
Gross insurance written premiums comprise the total premiums receivable for the whole cover period provided by contracts entered into during the reporting period. Premiums include any adjustments arising in the reporting period for premium receivable in respect of business written in prior periods. Premiums from policies with a term of exactly one year are recognized as revenue over the period of the contracts using the 24th method, otherwise 365th method is used. The portion of the premiums written that relate to the unexpired periods of the policies at the end of the reporting period are accounted for as provision for unearned premiums and is presented under "Insurance contract liabilities" in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums shown under "Reinsurance assets" in the statement of financial position. The net changes in these accounts between reporting dates are credited or charged against profit or loss for the year.

Commission income
Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method for polices with a term of exactly one year, otherwise, 365th method is used. 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 reinsurance commissions" in the statement of financial position.

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

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

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

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

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

Commission expense
Commissions are recognized as expense over the period of the contracts using the 24th method for polices with a term of exactly one year, otherwise, 365th method is used. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as "Deferred Acquisition Cost" and presented in the asset section of the statement of financial position.

Underwriting expense and general and administrative expense
These expenses are recognized in profit or loss as they are incurred.

Interest expense
Interest expense is recognized as incurred, taking into account the effective yield of the liabilities.

Leases – policies applicable beginning January 1, 2019
Company as a lessee – Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases of office and parking spaces (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below ₱216,000. lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Leases – policies applicable prior to January 1, 2019
Company as a lessee
Lease of assets under which the lessor effectively retains all the risks and rewards of ownership is 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.

Income Tax
Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

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

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

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

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

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

Deferred income tax relating to items recognized in other comprehensive income is also recognized in other comprehensive income and not in profit or loss.

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

Provisions

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

Contingencies

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

Events after the Reporting Date

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

3. Significant Accounting Judgments and Estimates

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

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

Judgments

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

Product classification

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

Classification of financial instruments

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

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

The classification of the Company's financial instrument by categories is shown in Note 6.

Operating lease commitments – company as lessee – policies prior to January 1, 2019

The Company has entered into commercial property leases with various lessors. The Company has determined that the lessors retain all the significant risks and rewards of ownership of the leased properties thus accounts for them as operating leases. Accordingly, these agreements are accounted for as operating leases (see Note 26).

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

Valuation of insurance contract liabilities
Estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting date and for the expected ultimate cost of claims IBNR at the end of the reporting date. It can take a significant period of time before the ultimate claim cost can be established with certainty. Non-life liabilities are not discounted for the time value of money.

The main assumption underlying estimation of the claims provision is that a company's past claim 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 claims types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

In addition to the use of loss development triangles per class of business as basis for projection of future claims, the independent actuary also considers the information gathered from the Company's Underwriting and Claims Departments in the actuarial computation of the policy reserves including claims IBNR and ultimate cost of CHE. This information includes, among others, large loss experience, concerns and uncertainties, operation changes in claims and underwriting processes, and external conditions such as market outlook, inflation and current catastrophes.

The carrying value of claims reported and IBNR included in the insurance contract liabilities account amounted to ₱367.45 million and ₱296.16 million as of December 31, 2019 and 2018, respectively (see Note 14).

Impairment of AFS financial assets
The Company assesses its AFS financial assets for impairment when there has been a significant or prolonged decline in the fair value below cost. This determination of what is significant or prolonged requires judgment. The Company treats 'significant' generally as 15-20% or more of the original cost of investment, and 'prolonged' as being more than twelve (12) months. In making this judgment, the Company evaluates, among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The carrying value of the Company's AFS equity financial assets amounted to ₱205.28 million and ₱168.51 million as of December 31, 2019 and 2018, respectively. The Company recognized impairment loss on its investment in equity securities amounting to ₱11.47 million and ₱5.92 million in 2019 and 2018, respectively (see Note 7).

In case of AFS debt securities, impairment is assessed based on the same criteria as financial assets at amortized cost. An amount comprising the difference between its cost, net of any principal payment and amortization, and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate on interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in profit or loss. If, in subsequent year, the fair value of a debt instrument increases 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.

The carrying value of AFS debt securities amounted to ₱723.96 million and ₱559.20 million as of December 31, 2019 and 2018, respectively. The Company did not recognize impairment loss on its debt securities in 2019 and 2018 (see Note 7).

Estimation of allowance for credit losses on loans and receivables
The Company reviews its insurance receivables and loans and receivables at each reporting date to assess whether an allowance for credit losses should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for credit losses would increase recorded expenses and decrease the asset's carrying values.

The carrying value of insurance receivables amounted to ₱577.87 million and ₱577.32 million as of December 31, 2019 and 2018, respectively (see Note 6). The allowance for credit losses amounted to ₱35.94 million and ₱8.75 million as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the carrying value of loans and receivables amounted to ₱161.31 million and ₱174.56 million, respectively. The Company did not recognize allowance for credit losses on loans and receivables in 2019 and 2018 (see Note 7).

Impairment of property and equipment
The Company assesses the impairment of its property and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

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

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets; and
- significant negative industry or economic trends.

As of December 31, 2019 and 2018, the carrying value of property and equipment amounted to ₱27.05 million and ₱24.47 million, respectively. The Company did not recognize impairment loss on its property and equipment in 2019 and 2018 (see Note 11).

Recognition of deferred tax assets
Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that the taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

As of December 31, 2019 and 2018, the Company recognized deferred tax assets amounting to ₱36.45 million and ₱17.32 million, respectively (see Note 23).

Pension benefits

The determination of obligation and cost of pension benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate. In accordance with PFRS, actual results that differ from the Company's assumptions are recognized outright in the statement of comprehensive income.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

As of December 31, 2019 and 2018, net pension liability amounted to ₱4.16 million and net pension asset amounted to ₱0.96 million, respectively (Note 22).

Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Company does not believe these proceedings will have a material adverse effect on the Company's financial position.

4. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	**₱30,900**	₱44,900
Cash in banks (Note 24)	**308,254,245**	266,932,790
Cash equivalents (Note 24)	**131,253,145**	270,015,941
	₱439,538,290	₱536,993,631

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earned interest at annual rates that ranged from 1.25% to 4.00% and from 1.00% to 7.50% in 2019 and 2018, respectively.

Interest income earned from cash in banks and cash equivalents amounted to ₱6.86 million and ₱21.61 million in 2019 and 2018, respectively (see Note 19).

5. Short-term Investments

This account consists of:

	2019	2018
Time deposits	**₱126,589,724**	₱–

Short-term investments consist of time deposits with maturities of more than three months but less than one year from the date of placement, and earned interest at annual rates of 3.25% to 3.50% in 2019.

Interest income earned from these short-term investments amounted to ₱1.50 million in 2019 (Note 19).

6. Insurance Receivables

This account consists of:

	2019	2018
Premiums receivable (Note 25)	**₱366,655,087**	₱338,557,679
Reinsurance recoverable on paid losses	**108,501,722**	139,163,609
Due from ceding companies	**103,957,558**	62,277,235
Commissions receivable	**23,959,031**	37,358,427
Fund held by ceding companies	**10,733,911**	8,705,066
	613,807,309	586,062,016
Less: allowance for credit losses	**35,937,416**	8,745,292
	₱577,869,893	₱577,316,724

The aging analysis of insurance receivables as of December 31 follows:

	2019					
	Less than 30 days	**31 to 60 Days**	**61 to 120 days**	**121 to 180 Days**	**More than 180 days**	**Total**
Premiums receivable	**₱68,011,703**	**₱34,152,816**	**₱16,488,288**	**₱57,683,739**	**₱190,318,541**	**₱366,655,087**
Reinsurance recoverable on paid losses	**52,134**	**425,945**	**49,328,977**	**–**	**58,694,666**	**108,501,722**
Due from ceding companies	**24,502,586**	**6,937,639**	**23,187,148**	**9,236,810**	**40,093,375**	**103,957,558**
Commissions receivable	**967,777**	**926,144**	**654,659**	**3,148,791**	**18,261,660**	**23,959,031**
Funds held by ceding companies	**–**	**9,601**	**1,226,509**	**674,817**	**8,822,984**	**10,733,911**
	₱93,534,200	**₱42,452,145**	**₱90,885,581**	**₱70,744,157**	**₱316,191,226**	**₱613,807,309**

	2018					
	Less than 30 days	31 to 60 days	61 to 120 days	121 to 180 Days	More than 180 days	Total
Premiums receivable	₱48,950,872	₱49,656,074	₱41,511,534	₱35,158,318	₱163,280,881	₱338,557,679
Reinsurance recoverable on paid losses	2,223,872	18,995,660	2,568,370	10,962,044	104,413,663	139,163,609
Due from ceding companies	16,001,616	15,061,953	4,879,943	2,303,252	24,030,471	62,277,235
Commissions receivable	4,512,108	3,727,724	8,733,581	3,448,729	16,936,285	37,358,427
Funds held by ceding companies	–	–	4,706	9,412	8,690,948	8,705,066
	₱71,688,468	₱87,441,411	₱57,698,134	₱51,881,755	₱317,352,248	₱586,062,016

As of December 31, 2019 and 2018, allowance for doubtful accounts for insurance receivables follows:

	2019			
	Premiums receivable	**Due from ceding companies**	**Reinsurance recoverable on paid losses**	**Total**
Balance at beginning of year	**₱4,599,194**	**₱852,181**	**₱3,293,917**	**₱8,745,292**
Provision for bad debts (Note 21)	**6,227,989**	**11,277,056**	**9,687,079**	**27,192,124**
Balance at end of year	**₱10,827,183**	**₱12,129,237**	**₱12,980,996**	**₱35,937,416**

	2018			
	Premiums receivable	Due from ceding companies	Reinsurance recoverable on paid losses	Total
Balance at beginning and end of year	₱4,599,194	₱852,181	₱3,293,917	₱8,745,292

7. **Financial Assets**

As of December 31, 2019 and 2018, the Company's financial assets are summarized by measurement categories as follows:

	2019	2018
Financial assets at FVPL	**₱227,151,152**	₱220,683,979
AFS financial assets	**929,238,723**	727,715,509
Loans and receivables	**161,311,498**	174,559,592
	₱1,317,701,373	₱1,122,959,080

The assets included in each of the categories above are detailed as follow:

Financial assets at FVPL
This account consists of quoted preferred shares and peso-denominated term notes. These financial assets were designated as at FVPL at initial recognition. The movement in the fair value of financial assets at FVPL amounted to ₱6.47 million increase and ₱16.28 million decrease in 2019 and 2018, respectively, reported under 'Investment income – net' in the statements of income (Note 19).

AFS financial assets
This account consists of the following:

	2019	2018
Government debt securities	**₱286,699,587**	₱178,137,358
Private debt securities	**437,257,475**	381,063,248
Equity securities:		
Listed common shares– net of allowance for impairment losses amounting to ₱24.94 million and ₱40.60 million as of December 31, 2019 and 2018, respectively	**204,261,661**	167,494,903
Private common shares	**1,020,000**	1,020,000
	₱929,238,723	₱727,715,509

The cost of AFS financial assets are as follows:

	2019	2018
Government debt securities	**₱280,500,000**	₱190,200,000
Private debt securities	**442,336,080**	401,008,858
Equity securities:		
Listed common shares– net of allowance for impairment losses amounting to ₱24.94 million and ₱40.60 million as of December 31, 2019 and 2018, respectively	**164,677,517**	125,428,468
Private common shares	**1,020,000**	1,020,000
	₱888,533,597	₱717,667,326

The carrying values of AFS financial assets have been determined as follows:

	2019	2018
Balance at beginning of year	**₱727,715,509**	₱701,454,646
Additions	**419,726,447**	99,721,982
Disposal/maturities	**(246,496,453)**	(53,329,412)
Amortization of premium	**(114,453)**	(111,142)
Changes in fair value of AFS financial assets	**28,407,673**	(20,020,564)
Balance at end of year	**₱929,238,723**	₱727,715,510

The rollforward analysis of the revaluation reserve on AFS financial assets follows:

	2019	2018
Balance at beginning of year	**₱10,048,184**	₱26,333,442
Change in fair value of AFS financial assets	**28,407,673**	(20,020,564)
Transferred to profit and loss:		
Impairment loss (Note 19)	**11,470,015**	5,923,487
Gain on sale of AFS financial assets	**(9,220,746)**	(2,188,181)
Balance at end of year	**₱40,705,126**	₱10,048,184

In 2019 and 2018, provision for impairment losses amounting to ₱11.47 million and ₱5.92 million pertains to investments in listed equity securities (Note 19).

Interest income earned from AFS financial assets in 2019 and 2018 amounted to ₱41.60 million and ₱19.90 million, respectively (see Note 19).

In 2019 and 2018, dividend income earned from investments in equity securities amounted to ₱14.08 million and ₱15.56 million, respectively (Note 19).

Loans and receivables
This account consists of the following:

	2019	2018
Money market placements	**₱150,000,000**	₱159,000,000
Accounts receivable	**10,703,402**	15,515,131
Advances to employees	**608,096**	44,461
	₱161,311,498	₱174,559,592

Money market placements are composed of time deposits which have been acquired with original maturities of more than three months. These time deposits earn annual interest ranges from 5.50% to 3.25% in 2019 and 2018 and with maturity dates from 2019 to 2023. Interest income from money market placements amounted to ₱3.60 million and ₱3.35 million in 2019 and 2018, respectively (Note 19).

8. Accrued Income

This account consists of accrued interest on the following accounts:

	2019	2018
Cash and cash equivalents	**₱5,294,938**	₱8,388,178
Short-term investments	**1,501,959**	–
AFS financial assets	**465,934**	350,111
Loans and receivables	**706,337**	584,967
	₱7,969,168	₱9,323,256

9. Reinsurance Assets

This account consists of:

	2019	2018
Reinsurance recoverable on unpaid losses (Note 14)	**₱267,073,368**	₱210,868,540
Deferred reinsurance premiums (Note 14)	**176,353,357**	157,222,816
	₱443,426,725	₱368,091,356

10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The rollforward analysis of deferred acquisition costs follows:

	2019	2018
Balance at beginning of year	**₱26,537,688**	₱22,686,781
Cost deferred during the year	**70,814,601**	58,674,945
Cost incurred during the year	**(67,315,665)**	(54,824,038)
Balance at end of year	**₱30,036,624**	₱26,537,688

The rollforward analysis of deferred reinsurance commissions follows:

	2019	2018
Balance at beginning of year	**₱14,706,719**	₱11,592,286
Income deferred during the year	**61,879,330**	40,210,231
Income earned during the year	**(57,000,772)**	(37,095,798)
Balance at end of year	**₱19,585,277**	₱14,706,719

11. Property and Equipment– net

The composition of and movements of this account follows:

	2019					
	Condominium units	**Furniture, fixtures and equipment**	**EDP equipment**	**Leasehold improvements**	**Transportation equipment**	**Total**
Cost						
Balance at beginning of year	**₱24,721,098**	**₱2,825,266**	**₱12,174,919**	**₱3,888,954**	**₱7,261,248**	**₱50,871,485**
Additions	**–**	**154,942**	**2,972,881**	**40,700**	**3,452,199**	**6,620,722**
Disposals	**–**	**–**	**–**	**–**	**(803,569)**	**(803,569)**
Balance at end of year	**24,721,098**	**2,980,208**	**15,147,800**	**3,929,654**	**9,909,878**	**56,688,638**
Accumulated depreciation						
Balance at beginning of year	**₱12,731,365**	**₱926,829**	**₱10,157,554**	**₱922,835**	**₱1,662,497**	**₱26,401,080**
Depreciation (Note 21)	**494,422**	**275,615**	**1,035,629**	**395,713**	**1,597,493**	**3,798,872**
Disposals	**–**	**–**	**–**	**–**	**(562,498)**	**(562,498)**
Balance at end of year	**13,225,787**	**1,202,444**	**11,193,183**	**1,318,548**	**2,697,492**	**29,637,454**
Net book value	**₱11,495,311**	**₱1,777,764**	**₱3,954,617**	**₱2,611,106**	**₱7,212,386**	**₱27,051,184**

	2018					
	Condominium units	Furniture, fixtures and equipment	EDP equipment	Leasehold improvements	Transportation equipment	Total
Cost						
Balance at beginning of year	₱24,721,098	₱2,566,337	₱11,457,861	₱3,823,954	₱3,039,284	₱45,608,534
Additions	–	258,929	717,058	65,000	5,455,893	6,496,880
Disposals	–	–	–	–	(1,233,929)	(1,233,929)
Balance at end of year	24,721,098	2,825,266	12,174,919	3,888,954	7,261,248	50,871,485
Accumulated depreciation						
Balance at beginning of year	₱12,236,943	₱657,337	₱9,240,689	₱527,440	₱1,234,668	₱23,897,077
Depreciation (Note 21)	494,422	269,492	916,865	395,395	1,164,869	3,241,043
Disposals	–	–	–	–	(737,040)	(737,040)
Balance at end of year	12,731,365	926,829	10,157,554	922,835	1,662,497	26,401,080
Net book value	₱11,989,733	₱1,898,437	₱2,017,365	₱2,966,119	₱5,598,751	₱24,470,405

The cost of fully depreciated property and equipment still in use amounted to ₱2.26 million and ₱2.21 million as of December 31, 2019 and 2018, respectively.

12. Other Assets

This account consists of:

	2019	2018
Prepaid expenses	**₱64,321,245**	₱333,876
Escrow fund	**44,790,169**	43,029,100
Documentary stamps fund	**11,302,315**	11,685,485
Deferred input VAT	**8,160,434**	4,192,300
Miscellaneous deposits	**1,198,992**	1,180,812
Creditable withholding taxes (CWT)	–	1,520,013
Others	**3,614,606**	2,707,908
	₱133,387,761	₱64,649,494

Prepaid expenses pertain to prepayments for various expenses. This account also includes deferred service fees pertaining to other acquisitions costs recorded as underwriting expenses which is accounted using the 24th method.

The escrow fund was established pursuant to the requirement of the Land Transportation Franchising and Regulatory Board (LTFRB) wherein the Company, being accredited for the Personal Passenger Accident Insurance Program (PPAI), is required to establish an escrow to guaranty the payment of the claims of insured Public Utility Vehicles. The escrow agreement was entered by the Company, LTFRB, and PNB Trust Banking Group (escrow agent) on November 15, 2013 to set up a fund amounting to ₱40.00 million with accumulated interest amounting to ₱4.79 million as of 2019.

Documentary stamps fund pertains to fund set aside for payment of documentary stamps tax to Bureau of Internal Revenue (BIR).

Deferred input VAT arises from purchases of goods and services from VAT registered suppliers which were not yet paid as of reporting date.

Miscellaneous deposits represent security rent deposits of branches and fund set aside as per requirement of the Supreme Court for the issuance of bonds for the Company's assured.

CWT pertain to the excess payments made against current income tax due which can be claimed against income tax in future periods. CWT applied for payment of the Company's income tax due in 2019 and 2018 amounted to ₱5.38 million and ₱13.96 million, respectively.

Others pertain to security fund and stationery and supplies.

13. Accounts Payable and Accrued Expenses

This account consists of:

	2019	2018
Commissions payable (Note 25)	**₱123,803,717**	₱99,423,432
Accounts payable	**93,124,797**	58,648,658
Premium deposits	**62,446,120**	39,922,015
Deferred output VAT	**49,741,588**	38,044,687
Taxes payable	**35,676,378**	33,911,827
Accrued expenses	**14,457,890**	10,091,137
Output VAT	**1,143,865**	3,699,664
Others	**350,172**	203,058
	₱380,744,527	₱283,944,478

Commissions payable pertain to commissions to agents, brokers and ceding companies. These are settled within 90 days from policy issuance date.

Accounts payable and accrued expenses pertain to operating expenses of the Company which are non-interest bearing and due and demandable. Accrued expenses also include accruals for bonus.

During 2019, the Company reversed long-outstanding accounts payable amounting to ₱4.30 million. These reversals were recorded as part of "Miscellaneous income" in the statements of income.

Premium deposits pertain to collections from policyholders which were received but were not yet properly applied due to incomplete reference.

Deferred output VAT consists of VAT incurred from policy issuances where the corresponding premiums remain unpaid as of reporting date.

Taxes payable pertain to documentary stamps payable, withholding taxes payable, fire service tax payable and other taxes and licenses that are due for settlement within one month after the reporting date.

Other liabilities mainly consists of contribution and loan payable to SSS, Pag-ibig and Medicare.

14. Insurance Contract Liabilities

Insurance contract liabilities may be analyzed as follows:

	2019			2018		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 9)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net
Provision for claims reported	**₱237,179,527**	**₱181,298,963**	**₱55,880,564**	₱243,058,927	₱178,509,317	₱64,549,610
Provision for claims IBNR and MfAD	**130,271,671**	**85,774,405**	**44,497,266**	53,100,916	32,359,223	20,741,693
Total provision for claims reported, claims IBNR and MfAD	**367,451,198**	**267,073,368**	**100,377,830**	296,159,843	210,868,540	85,291,303
Provision for unearned premiums	**414,600,527**	**176,353,357**	**238,247,170**	298,510,980	157,222,816	141,288,164
	₱782,051,725	**₱443,426,725**	**₱338,625,000**	₱594,670,823	₱368,091,356	₱226,579,467

The provision for claims reported, claims IBNR and MfAD may be analyzed as follows:

	2019			2018		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 9)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net
Balance at beginning of year	**₱296,159,843**	**₱210,868,540**	**₱85,291,303**	₱221,463,405	₱158,882,108	₱62,581,297
Claims incurred during the year	**114,929,236**	**51,985,731**	**62,943,505**	161,727,892	82,622,381	79,105,511
Claims paid during the year (Note 20)	**(120,808,636)**	**(49,196,085)**	**(71,612,551)**	(88,770,800)	(21,100,125)	(67,670,675)
Increase (decrease) in IBNR and MfAD (Note 20)	**77,170,755**	**53,415,182**	**23,755,573**	1,739,346	(9,535,824)	11,275,170
Balance at end of year	**₱367,451,198**	**₱267,073,368**	**₱ 100,377,830**	₱296,159,843	₱210,868,540	₱85,291,303

The provision for unearned premiums may be analyzed as follows:

	2019			2018		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 9)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net
Balance at beginning of year	**₱298,510,980**	**₱157,222,816**	**₱141,288,164**	₱234,050,098	₱129,424,906	₱104,625,192
Policies written during the year (Note 18)	**859,724,473**	**388,930,776**	**470,793,697**	679,214,296	385,110,582	294,103,714
Premiums earned during the year (Note 18)	**(743,634,926)**	**(369,800,235)**	**(373,834,691)**	(614,753,414)	(357,312,672)	(257,440,742)
Balance at end of year	**₱414,600,527**	**₱176,353,357**	**₱238,247,170**	₱298,510,980	₱157,222,816	₱141,288,164

15. **Insurance Payables**

This account consists of:

	2019	2018
Premiums due to reinsurers	**₱175,761,445**	₱263,464,342
Funds held for reinsurers	**53,392,617**	37,792,229
	₱229,154,062	₱301,256,571

Premiums due to reinsurers represent the reinsurance premiums due and payable by the Company to all its reinsurers whether by treaty or facultative.

Funds held for reinsurers represent the amounts pertaining to a certain percentage of the total reinsurance premiums due to reinsurers within one (1) year from date of retention being held by the Company as reserves for unpaid losses and unearned premiums.

The rollforward analysis of insurance payables follows:

	2019		
	Premiums due to reinsurers	**Funds held for reinsurers**	**Total**
Balance at beginning of year	**₱263,464,342**	**₱37,792,229**	**₱301,256,571**
Arising during the year	**388,930,776**	**96,263,675**	**485,194,451**
Paid during the year	**(476,633,673)**	**(80,663,287)**	**(557,296,960)**
Balance at end of year	**₱175,761,445**	**₱53,392,617**	**₱229,154,062**

	2018		
	Premiums due to reinsurers	Funds held for reinsurers	Total
Balance at beginning of year	₱209,222,109	₱19,330,434	₱228,552,543
Arising during the year	385,110,582	39,885,001	424,995,583
Paid during the year	(330,868,349)	(21,423,206)	(352,291,555)
Balance at end of year	₱263,464,342	₱37,792,229	₱301,256,571

Interest expense on funds held for reinsurers amounted to ₱1.07 million and ₱0.50 million in 2019 and 2018, respectively.

The Company reversed premiums due to reinsurers amounting to ₱15.19 million in 2019. These reversals were recorded as part of "Miscellaneous income" in the statements of income.

16. **Insurance Contract Liabilities and Reinsurance Assets – Terms, Assumptions and Sensitivities**

Terms and Conditions

The major classes of general insurance written by the Company include aviation, fire, surety, casualty, and engineering. Risks under these policies usually cover one-month to three-year periods.

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

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

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

Assumptions

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

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions such as legislative change and uncertainty in the estimation process is not possible to quantify. As a result, the final liabilities may change as result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent financial statements.

The sensitivity analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

	2019			
	Change in assumption	**Impact on gross insurance contract liabilities**	**Impact on net insurance contract liabilities**	**Impact on income before income tax**
Average claim costs	**+4.55%**	**₱10,746,010**	**(₱3,102,531)**	**(₱3,102,531)**
Average number of claims	**+22.97%**	**61,135,921**	**(16,770,774)**	**(16,770,774)**

	2018			
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	+9.22%	₱22,159,219	(₱5,772,055)	(₱5,772,055)
Average number of claims	+18.90%	45,416,197	(11,830,056)	(11,830,056)

Claims Development Tables

The tables in the next page show the development of claims over a period of time. These reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

The Company aims to maintain strong reserves in respect of its general insurance in order to protect against adverse future claims experience and development. As claims develop and ultimate costs of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years.

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis:

	Gross insurance contract liabilities for 2019							
	2013 and prior	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claim costs								
At the end of accident year	₱664,855,790	₱126,221,480	₱183,096,949	₱226,914,246	₱185,555,200	₱257,842,370	₱289,795,963	₱289,795,963
One year later	172,281,268	66,103,256	113,393,160	95,650,913	80,547,563	162,241,453		162,241,453
Two years later	23,544,111	6,779,919	48,233,431	23,965,136	30,849,539			30,849,539
Three years later	14,343,035	30,000	47,659,984	1,608,316				1,608,316
Four years later	2,249,809	126,163	3,671,493					3,671,493
Five years later	139,549	69,442						69,442
Six years later	23,628							23,628
Current estimate of cumulative claims	23,628	69,442	3,671,493	1,608,316	30,849,539	162,241,453	289,795,963	488,259,834
Cumulative payments to date	7,646	39,442	1,808,399	627,981	5,309,068	84,519,911	28,496,189	120,808,636
Total gross insurance contract liabilities in the statement of financial position	₱15,982	₱30,000	₱1,863,094	₱980,335	₱25,540,471	₱77,721,542	₱261,299,774	₱367,451,198

	Net insurance contract liabilities for 2019							
	2013 and prior	2014	2015	2016	2017	2018	2019	Total
Estimate of ultimate claim costs								
At the end of accident year	₱109,011,081	₱38,701,315	₱31,041,306	₱47,784,542	₱73,141,896	₱105,939,336	₱110,876,308	₱110,876,308
One year later	109,090,215	28,731,609	19,492,864	36,379,292	38,061,088	50,630,178		50,630,178
Two years later	14,752,657	9,270,053	1,786,540	7,291,195	8,066,870			8,066,870
Three years later	11,121,889	20,000	1,541,423	789,878				789,878
Four years later	1,923,082	100,312	1,544,077					1,544,077
Five years later	131,689	59,442						59,442
Six years later	23,628							23,628
Current estimate of cumulative claims	23,628	59,442	1,544,077	789,878	8,066,870	50,630,178	110,876,308	171,990,381
Cumulative payments to date	7,646	39,442	700,199	464,307	5,282,914	41,900,705	23,217,338	71,612,551
Total reinsurers' share on gross insurance contract liabilities in the statement of financial position	₱15,982	₱20,000	₱843,878	₱325,571	₱2,783,956	₱8,729,473	₱87,658,970	₱100,377,830

17. Equity

Capital stock

Details of the Company's common shares as of December 31, 2019 and 2018 follow:

	2019		2018	
	Number of shares	Amount	Number of shares	Amount
Authorized capital stock – ₱1 par value per share	1,000,000,000	₱1,000,000,000	1,000,000,000	₱1,000,000,000
Issued and fully paid	470,000,000	470,000,000	470,000,000	470,000,000
Subscribed		165,537,500		165,537,500
Paid-up capital		635,537,500		635,537,500
Contributed surplus		441,615,510		441,615,510
		₱1,077,153,010		₱1,077,153,010

Contributed surplus amounting to ₱0.44 billion as of December 31, 2019 and 2018 represents the original contribution of the stockholders of the Company, in addition to the paid-up capital stock.

Out of the ₱125.00 million cash dividends declared in 2016, ₱19.24 million remain outstanding as of December 31, 2019 and 2018.

18. Net Earned Premiums

Total gross earned premiums on insurance contracts follows:

	2019	2018
Gross premiums written		
Direct	₱699,082,982	₱620,432,618
Assumed	160,641,491	58,781,678
Total gross premiums written	859,724,473	679,214,296
Gross change in provision for unearned premiums	(116,089,547)	(64,460,882)
Total gross earned premiums (Note 14)	₱743,634,926	₱614,753,414

Total reinsurers' share of gross earned premiums on insurance contracts follows:

	2019	2018
Reinsurers' share of gross premiums written		
Direct	₱388,930,776	₱385,110,582
Assumed	–	–
Total reinsurers' share of gross premiums written	388,930,776	385,110,582
Reinsurers' share of gross change in provision for unearned premiums	(19,130,541)	(27,797,910)
Total reinsurers' share of gross earned premiums (Note 14)	₱369,800,235	₱357,312,672

19. Investment Income – net

This account consists of:

	2019	2018
Interest income on:		
AFS financial assets (Note 7)	**₱41,597,813**	₱19,902,385
Cash and cash equivalents (Note 4)	**6,861,906**	21,613,848
Money market placements (Note 7)	**3,595,715**	3,350,000
Short-term investments (Note 5)	**1,501,959**	–
Dividend income (Note 7)	**14,080,943**	15,558,587
Gain on sale of AFS financial assets (Note 7)	**9,220,746**	2,188,181
Changes in fair value of financial assets at FVPL (Note 7)	**6,467,173**	(16,276,834)
Impairment loss on AFS financial assets (Note 7)	**(11,470,015)**	(5,923,487)
	₱71,856,240	₱40,412,680

20. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid:

	2019	2018
Direct	**₱117,830,897**	₱73,555,624
Assumed	**2,977,739**	15,215,176
	₱120,808,636	₱88,770,800

Reinsurers' share of gross insurance contracts benefits and claims paid:

	2019	2018
Direct	**₱51,759,962**	₱15,793,640
Assumed	**(2,563,877)**	5,306,485
	₱49,196,085	₱21,100,125

Gross change in insurance contract liabilities:

	2019	2018
Change in provision for claims reported:		
Direct	**(₱39,141,385)**	₱80,736,595
Assumed	**33,261,985**	(7,779,503)
	(5,879,400)	72,957,092
Provision for claims IBNR and MfAD	**77,170,755**	1,739,346
	₱71,291,355	₱74,696,438

Reinsurers' share of gross change in insurance contract liabilities:

	2019	2018
Change in provision for claims reported:		
Direct	**(₱22,766,120)**	₱64,004,116
Assumed	**25,555,766**	(2,481,860)
	2,789,646	61,522,256
Provision for claims IBNR and MfAD	**53,415,182**	(9,535,824)
	₱56,204,828	₱51,986,432

21. General and Administrative Expenses

This account consists of:

	2019	2018
Salaries and allowances (Note 25)	**₱61,996,366**	₱48,997,998
Provision for doubtful accounts (Note 6)	**27,192,124**	–
Professional fees	**14,730,572**	3,478,362
Advertising, promotion and marketing expense	**12,878,326**	5,656,189
Board meeting expenses and directors' fees	**4,979,411**	4,369,352
Pension expense (Note 22)	**4,542,043**	5,724,671
Professional and technical development	**4,120,818**	11,677,787
Depreciation and amortization (Note 11)	**3,798,872**	3,241,043
Taxes and licenses	**3,542,646**	1,477,721
Transportation and travel	**2,399,565**	1,216,148
Representation and entertainment	**1,733,139**	816,004
Social security and other contributions	**1,689,015**	1,187,343
Communication and postage	**1,614,852**	1,727,222
Stationery and supplies	**1,336,556**	1,243,083
Hospitalization contribution	**1,131,624**	1,019,073
Light and water	**1,045,003**	1,027,059
Bank, trust and other fees	**1,012,594**	1,101,388
Association dues	**741,443**	801,971
Fringe benefit tax	**658,256**	–
Other employee benefits	**542,718**	594,600
Rent (Note 26)	**530,347**	424,053
Repairs and maintenance	**401,964**	291,507
Others	**4,596,401**	7,555,582
	157,214,655	103,628,156

Others include payments made to agency, books and periodicals, donations and charitable contributions.

22. Pension Cost

The Company has an unfunded, non-contributory defined benefit retirement plan covering substantially all of its regular employees.

The following tables summarize the components of retirement cost recognized in the statements of income and pension obligation recognized in the statements of financial position:

	2019		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Total Net pension liability (asset)**
Balance at beginning of the year	**₱25,443,061**	**(₱26,406,732)**	**(₱963,671)**
Current service cost (Note 21)	**4,542,043**	**-**	**4,542,043**
Net interest expense (income)	**1,880,242**	**(1,951,457)**	**(71,215)**
Total pension expense	**6,422,285**	**(1,951,457)**	**4,470,828**
Actuarial loss on defined benefit obligation	**10,896,450**		**10,896,450**
Remeasurement loss on plan assets	**-**	**408,565**	**408,565**
Total remeasurement loss (gain) to other comprehensive income	**10,896,450**	**408,565**	**11,305,015**
Benefits paid	**(1,941,435)**	**1,941,435**	**-**
Contributions	**-**	**(10,656,015)**	**(10,656,015)**
Balance at the end of the year	**₱40,820,361**	**(₱36,664,204)**	**₱4,156,157**

	2018		
	Present value of defined benefit obligation	Fair value of plan assets	Total Net pension liability (asset)
Balance at beginning of the year	₱32,859,764	(₱25,362,938)	₱7,496,826
Current service cost (Note 21)	5,724,671	–	5,724,671
Net interest expense (income)	1,853,291	(1,430,470)	422,821
Total pension expense	7,577,962	(1,430,470)	6,147,492
Actuarial gain on defined benefit obligation	(5,439,611)	–	(5,439,611)
Remeasurement loss on plan assets	–	1,150,618	1,150,618
Total remeasurement loss (gain) to other comprehensive income	(5,439,611)	1,150,618	(4,288,993)
Benefits paid	(9,555,054)	9,555,054	–
Contributions	–	(10,318,996)	(10,318,996)
Balance at the end of the year	₱25,443,061	(₱26,406,732)	(₱963,671)

Details of accumulated remeasurement gain on defined benefit plan as of December 31 follows:

	2019	2018
Balance at beginning of year	**₱4,578,414**	₱1,576,119
Remeasurement gain recognized in other comprehensive income during the year	**(11,305,015)**	4,288,993
	(6,726,601)	5,865,112
Income tax effect	**3,391,505**	(1,286,698)
Balance at end of year	**(₱3,335,096)**	₱4,578,414

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

The principal assumptions used to determine pension for the defined benefit plans follows:

	2019	2018
Discount rate	**5.02%**	7.39%
Salary increase rate	**10.00%**	10.00%
Average years of service	**5.56**	7.25

The discount rate used to determine the defined benefit obligation is determined by reference to the approximated zero-coupon yields of government bonds with remaining period to maturity approximating the estimated average duration of the benefit payment.

The salary increase rate takes into consideration the prevailing inflation rate and Company policy.

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

	Change in variables	**Increase (decrease) in present value of defined benefit obligation 2019**	2018
Discount rate	+0.50%	**(₱2,731,849)**	(₱1,490,835)
	-0.50%	**3,039,135**	1,633,923
Salary increase rate	+1.00%	**5,794,479**	3,160,059
	-1.00%	**(4,827,318)**	(2,677,456)

There were no significant changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis.

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

	2019	2018
Less than 1 year	**₱–**	₱–
More than 1 year to 5 years	**16,866,786**	9,980,255
More than 5 years to 10 years	**24,790,888**	23,843,986
More than 10 years to 15 years	**66,338,266**	53,813,676
More than 15 years to 20 years	**36,468,589**	45,682,045
More than 20 years	**1,311,873,536**	701,795,675

The Company expects to contribute at least ₱17.08 million to the define benefit plan in 2020.

The average expected future working lives of the employees of the Company is 23 years as of December 31, 2019 and 2018.

The distribution of the plan assets as of December 31, 2019 and 2018 follows:

	2019		2018	
	Amount	**%**	Amount	%
Savings deposit	**₱5,316**	**0.01%**	₱2,065	0.01%
Investment in unit investment trust fund	**22,435,060**	**61.19%**	11,851,467	44.88%
Investment in government securities	**9,062,586**	**24.72%**	13,636,327	51.64%
Investment in corporate debt securities	**5,063,589**	**13.81%**	825,198	3.12%
Accrued interest	**97,659**	**0.27%**	120,484	0.46%
	36,664,210	**100%**	26,435,541	100.11%
Less: provision for credit losses	**(6)**	**0.00%**	(28,809)	-0.11%
	₱36,664,204	**100%**	₱26,406,732	100.00%

The carrying values of plan assets approximate their fair values as of December 31, 2019 and 2018.

23. Income Tax

a. Details of the provision for income tax follows:

	2019	2018
Current		
RCIT	**₱48,012,511**	₱13,957,570
Final	**11,369,553**	8,384,335
	59,382,064	22,341,905
Deferred	**(18,425,316)**	(899,331)
	₱40,956,748	₱21,442,574

b. Components of net deferred tax assets follow:

	2019	2018
Presented in profit or loss		
Deferred income tax assets on:		
Unamortized past service cost	**₱6,512,204**	₱5,962,815
Provision for claims IBNR, CHE and MfAD	**14,791,737**	7,064,333
Allowance for credit losses	**10,781,225**	2,623,588
Net pension liability	–	1,673,076
Accrual for Performance Bonus	**2,400,000**	–
Accrual for Auditor	**340,032**	–
Unrealized foreign exchange loss	**192,874**	–
	35,018,072	17,323,812
Deferred income tax liability on		
Unrealized foreign exchange gain	–	(913,536)
Net pension liability	**(182,480)**	–
	(182,480)	(913,536)
	34,835,592	16,410,276
Presented in other comprehensive income		
Deferred income tax asset (liability) on remeasurement gains on defined benefit obligation	**1,429,328**	(1,962,177)
	₱36,264,920	₱14,448,099

Movements in net deferred tax assets comprise of:

	2019	2018
Balance at beginning of year	**₱14,448,099**	₱14,835,466
Deferred income tax recognized in profit or loss	**18,425,316**	899,331
Deferred income tax recognized in other comprehensive income	**3,391,505**	(1,286,698)
Balance at end of the year	**₱36,264,920**	₱14,448,099

c. The reconciliation of the statutory corporate income tax rate to the effective income tax rate follows:

	2019	2018
Statutory corporate income tax	₱50,766,238	₱24,951,475
Add (deduct) the tax effects of:		
Tax paid income	(4,593,380)	(4,993,471)
Non-deductible expenses	3,776,964	1,925,550
Non-taxable income	(8,993,074)	(440,980)
Effective income tax	₱40,956,748	₱21,442,574

24. Management of Insurance and Financial Risks

Governance Framework

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 failure to exploit opportunities. The Company recognizes the importance of having efficient and effective risk management systems in place.

Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise).

Fair Value Measurement

As of December 31, 2019 and 2018, the carrying values of the Company's assets and liabilities as reflected in the statements of financial position and related notes approximate their respective fair values as of the statements of financial position date.

The methods and assumptions used by the Company in estimating the fair values of the financial instruments are as follows:

Cash and cash equivalents, insurance receivables, accrued income and loans and receivables

Due to the short-term nature of these accounts, the fair values approximate the carrying amounts as of the reporting date.

AFS financial assets and financial assets at FVPL

The fair values of equity securities that are actively traded in organized financial markets are determined using quoted market prices within the bid-offer price change at reporting date. Unquoted equity securities are carried at cost subject to impairment when the fair value could not be reliably determined.

Financial liabilities
The fair values of insurance contract liabilities, accounts payable and accrued expenses (excluding statutory liabilities) and insurance payables approximate their carrying values due to either the demandable feature or the relatively short-term maturities of these liabilities.

The fair value hierarchy of the Company's financial assets are summarized in the table below.

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL	**₱227,151,152**	**₱–**	**₱–**	**₱227,151,152**
AFS financial assets:				
Government debt securities	**286,699,587**	**–**	**–**	**286,699,587**
Private debt securities	**437,257,475**	**–**	**–**	**437,257,475**
Listed equity securities	**204,261,661**	**–**	**–**	**204,261,661**
	₱1,155,369,875	**₱–**	**₱–**	**₱1,155,369,875**

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets at FVPL	₱220,683,979	₱–	₱–	₱220,683,979
AFS financial assets				
Government debt securities	178,137,358	–	–	178,137,358
Private debt securities	354,147,144	26,916,103	–	381,063,247
Listed equity securities	167,494,904	–	–	167,494,904
	₱920,463,385	₱26,916,103	₱–	₱947,379,488

In 2019 and 2018, there were no transfers between Level 1 and Level 2 of fair value measurements, and no transfer into and out of Level 3 fair value measurement.

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

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 by setting up exposure limits for each counterparty or group of counterparties and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collaterals and guarantees; reporting of credit risk exposures; monitoring compliance with credit risk policy; and review of credit risk policy for pertinence and changing environment.

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

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are set off against amounts receivable from them to reduce the risk of doubtful accounts.

As of December 31, 2019 and 2018, the carrying values of the Company's financial instruments represent maximum exposure to credit risk as of reporting date.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties as of December 31:

	2019			
	Neither past due nor impaired			
	Investment grade	**Non-investment grade**	**Past due or impaired**	**Total**
Loans and receivables:				
Cash and cash equivalents*	**₱439,507,390**	**₱–**	**₱–**	**₱439,507,390**
Short term investments	**126,589,724**	**–**	**–**	**126,589,724**
Insurance receivables:				
Premiums receivable	**–**	**98,448,220**	**268,206,867**	**366,655,087**
Reinsurance recoverable on paid losses	**–**	**478,078**	**108,023,644**	**108,501,722**
Due from ceding companies	**–**	**31,440,226**	**72,517,332**	**103,957,558**
Commissions receivable	**–**	**1,893,921**	**22,065,110**	**23,959,031**
Funds held by ceding companies	**–**	**9,601**	**10,724,310**	**10,733,911**
Accounts receivable	**–**	**10,703,402**	**–**	**10,703,402**
Advances to employees	**–**	**608,096**	**–**	**608,096**
Money market placements	**150,000,000**	**–**	**–**	**150,000,000**
Accrued income	**7,969,168**	**–**	**–**	**7,969,168**
Financial assets at FVPL	**227,151,152**	**–**	**–**	**227,151,152**
AFS financial assets:				
Government debt securities	**286,699,587**	**–**	**–**	**286,699,587**
Private debt securities	**437,257,475**	**–**	**–**	**437,257,475**
Listed common shares	**204,261,661**	**–**	**–**	**204,261,661**
Private common shares	**1,020,000**	**–**	**–**	**1,020,000**
	₱1,880,456,157	**₱143,581,544**	**₱481,537,263**	**₱2,505,574,964**

**excludes cash on hand*

	2018			
	Neither past due nor impaired			
	Investment Grade	Non-investment Grade	Past due or impaired	Total
Loans and receivables:				
Cash and cash equivalents*	₱536,948,731	₱–	₱–	₱536,948,731
Insurance receivables:				
Premiums receivable	–	123,034,092	215,523,587	338,557,679
Reinsurance recoverable on paid losses	–	23,787,270	115,376,339	139,163,609
Due from ceding companies	–	31,063,570	31,213,665	62,277,235
Commissions receivable	–	13,902,314	23,456,113	37,358,427
Funds held by ceding companies	–	–	8,705,066	8,705,066
Accounts receivable	–	15,515,131	–	15,515,131
Advances to employees	–	44,461	–	44,461
Money market placements	159,000,000	–	–	159,000,000
Accrued income	9,323,256	–	–	9,323,256
Financial assets at FVPL	220,683,979	–	–	220,683,979
AFS financial assets:				
Government debt securities	178,137,358	–	–	178,137,358
Private debt securities	381,063,248	–	–	381,063,248
Listed common shares	167,494,903	–	–	167,494,903
Private common shares	1,020,000	–	–	1,020,000
	₱1,653,671,475	₱207,346,838	₱394,274,770	₱2,255,293,083

**excludes cash on hand*

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

a. *Cash and cash equivalents and accrued income*
These are classified as investment grade. These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.
b. *Insurance receivables and loans and receivables*
The Company uses a credit rating concept based on the borrower's overall credit worthiness. Investment grade is given to borrowers and counterparties having good standing in terms of credit and paying habits and their outstanding account balance does not exceed 30% of their total production. Non-investment grade is given to borrowers and counterparties having low standing in terms of credit and paying habits and their outstanding balance exceeds 50% of their total production.
c. *Debt securities*
These are classified as investment grade. The government debt securities are issued by the local government authority and are considered as risk-free debt securities. The private debt securities are issued by the stable companies and are considered to be high credit worthiness.
d. *Equity securities*
Equity securities not subjected to other than temporary decline are classified as investment grade.

The table below shows the aging analysis of financial assets that are past due but not impaired:

	2019						
	Past due but not impaired						
	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total	Past due and impaired	Total
Insurance receivables:							
Premiums receivable	₱–	₱–	₱–	₱257,379,684	₱257,379,684	₱ 10,827,183	₱ 268,206,867
Reinsurance recoverable on paid losses	–	–	–	95,042,647	95,042,647	12,980,996	108,023,644
Due from ceding companies	–	–	–	60,388,096	60,388,096	12,129,237	72,517,332
Commissions receivable	–	–	–	22,065,110	22,065,110	–	22,065,110
Funds held by ceding companies	–	–	–	10,724,310	10,724,310	–	10,724,310
	₱–	₱–	₱–	₱ 445,599,847	₱ 445,599,847	₱ 35,937,416	₱ 481,537,263

	2018						
	Past due but not impaired						
	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total	Past due and impaired	Total
Insurance receivables:							
Premiums receivable	₱–	₱–	₱–	₱210,924,393	₱210,924,393	₱4,599,194	₱215,523,587
Funds held by ceding companies	–	–	–	112,082,421	112,082,421	3,293,917	115,376,338
Reinsurance recoverable on paid losses	–	–	–	30,361,484	30,361,484	852,181	31,213,665
Due from ceding companies	–	–	–	8,705,066	8,705,066	–	8,705,066
Commissions receivable	–	–	–	23,456,113	23,456,113	–	23,456,113
	₱–	₱–	₱–	₱385,529,477	₱385,529,477	₱8,745,292	₱394,274,769

The Company has a significant concentration of credit risk with the Lucio Tan Group as of December 31, 2019 and 2018 (Note 25).

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; counterparty failing on repayment of a contractual obligation; insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the potential daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company manages liquidity risk by specifying minimum proportion of funds to meet emergency calls; specifying the sources of funding and the events that would trigger the plan; determining concentration of funding sources; reporting of liquidity risk exposures; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

The following tables analyze financial assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates.

	2019				
	Up to a year	2-5 years	Over 5 years	No term	Total
Financial assets					
Loans and receivables:					
Cash and cash equivalents*	₱439,507,390	₱–	₱–	₱–	₱439,507,390
Short term investments	126,589,724	–	–	–	126,589,724
Insurance receivables:					
Premiums receivable	366,655,087	–	–	–	366,655,087
Reinsurance recoverable on paid losses	108,501,722	–	–	–	108,501,722
Due from ceding companies	103,957,558	–	–	–	103,957,558
Funds held by ceding companies	10,733,911	–	–	–	10,733,911
Commissions receivable	23,959,031	–	–	–	23,959,031
Accounts receivable	10,703,402	–	–	–	10,703,402
Advances to employees	608,096	–	–	–	608,096
Money market placements	30,000,000	120,000,000	–	–	150,000,000
Accrued income	7,969,168	–	–	–	7,969,168
Financial assets at FVPL	58,812,521	–	–	168,338,631	227,151,152
AFS financial assets:					
Government debt securities	69,296,242	217,403,345	–	–	286,699,587
Private debt securities	129,746,053	237,044,849	70,466,573	–	437,257,475
Listed common shares	–	–	–	204,261,661	204,261,661
Private common shares	–	–	–	1,020,000	1,020,000
	₱1,487,039,905	₱574,448,194	₱70,466,573	₱373,620,292	₱2,505,574,964
Financial liabilities					
Insurance contract liabilities	₱782,051,725	₱–	₱–	₱–	₱782,051,724
Accounts payable and accrued expenses**	345,068,150	–	–	–	345,068,150
Insurance payables	229,154,062	–	–	–	229,154,062
	₱1,356,273,937	₱–	₱–	₱–	₱1,356,273,937

**excludes cash on hand*
***excludes taxes payable*

	2018				
	Up to a year	2-5 years	Over 5 years	No term	Total
Financial assets					
Loans and receivables:					
Cash and cash equivalents*	₱536,948,731	₱–	₱–	₱–	₱536,948,731
Insurance receivables:					
Premiums receivable	338,557,679	–	–	–	338,557,679
Reinsurance recoverable on paid losses	139,163,608	–	–	–	139,163,608
Due from ceding companies	62,277,236	–	–	–	62,277,236
Funds held by ceding companies	8,705,066	–	–	–	8,705,066
Commissions receivable	37,358,427	–	–	–	37,358,427
Accounts receivable	15,515,131	–	–	–	15,515,131
Advances to employees	44,461	–	–	–	44,461
Money market placements	15,308,750	161,259,375	–	–	176,568,125
Accrued income	9,323,256	–	–	–	9,323,256
Financial assets at FVPL	220,683,979	–	–	–	220,683,979
AFS financial assets:					
Government debt securities	7,351,250	207,663,125	–	–	215,014,375
Private debt securities	46,972,035	326,372,745	95,269,306	–	468,614,086
Listed common shares	–	–	–	167,494,903	167,494,903
Private common shares	–	–	–	1,020,000	1,020,000
	₱1,438,209,609	₱695,295,245	₱95,269,306	₱168,514,903	₱2,397,289,063

(Forward)

	2018				
	Up to a year	2-5 years	Over 5 years	No term	Total
Financial liabilities					
Insurance contract liabilities	P594,670,823	P–	P–	P	P594,670,823
Accounts payable and accrued expenses**	246,332,987	–	–	–	246,332,987
Insurance payables	301,256,571	–	–	–	301,256,571
	P1,142,260,381	P–	P–	P–	P1,142,260,381

**excludes cash on hand*
***excludes taxes payable*

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

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

a. *Currency risk*
The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arises primarily with respect to the United Stated Dollar (US$).

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

The following table shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents.

	2019		2018	
	US$	**PHP**	US$	PHP
Cash and cash equivalents	**US$40,510**	**₱2,051,224**	US$487,928	₱25,655,254

The exchange rates used are P50.635 to US$1.00 in 2019 andP52.58 to US$1 in 2018.

The Company has no foreign currency-denominated financial liabilities as of December 31, 2019 and 2018.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity (that reflects adjustments to profit before tax).

	2019		2018	
Currency	**Change in Rate**	**Impact on income before tax**	Change in Rate	Impact on income before tax
US$	**+0.68%**	**₱13,950**	+7.40%	₱1,897,868
US$	**-0.68%**	**(13,950)**	-7.40%	(1,897,868)

The Company used the average of changes in year-end closing rate for the past three (3) years in determining the reasonably possible change in foreign exchange rates.

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

The following tables show the information relating to the Company's financial instruments that are exposed to interest rate risk presented by maturity profile.

	2019				
	Interest rates	**Within 1 year**	**2-5 years**	**Over 5 years**	**Total**
Financial assets					
Cash and cash equivalents*	**1.25% to 4.00%**	**₱439,507,390**	**₱–**	**₱–**	**₱439,507,390**
Short-term investments	**3.25% to 3.50%**	**126,589,724**	**–**	**–**	**126,589,724**
AFS financial assets:					
Government debt securities	**3.25% to 6.25%**	**69,307,082**	**217,403,345**	**–**	**286,699,587**
Private debt securities	**3.25% to 6.75%**	**129,746,053**	**237,044,849**	**70,466,573**	**437,257,475**
Money market placements	**3.25% to 4.50%**	**30,000,000**	**120,000,000**	**–**	**150,000,000**
		₱795,150,249	**₱574,448,194**	**₱70,466,573**	**₱1,440,054,176**
Financial liabilities					
Funds held for reinsurers	**5.00%**	**₱53,392,618**	**₱–**	**₱–**	**₱53,392,618**

**excludes cash on hand*

	2018				
	Interest rates	Within 1 year	2-5 years	Over 5 years	Total
Financial assets					
Cash and cash equivalents*	1.00% to 7.50%	P536,948,731	P–	P–	P536,948,731
AFS financial assets:					
Government debt securities	3.25% to 4.88%	–	178,137,358	–	178,137,358
Private debt securities	3.50% to 6.88%	27,062,355	273,290,691	80,710,201	381,063,247
Loans and receivables	3.25% to 5.50%	9,000,000	150,000,000	–	159,000,000
		P573,011,086	P601,428,049	P80,710,201	P1,255,149,336
Financial liabilities					
Funds held for reinsurers	5.00%	P37,792,229	P–	P–	P37,792,229

**excludes cash on hand*

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

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

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

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on other comprehensive income (due to changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the equity impact of reasonably possible changes in the Philippine Stock Exchange index (PSEi):

	2019		2018	
Market indices	**Change in variables**	**Impact on equity**	Change in variables	Impact on equity
PSEi	**+3.70%**	**₱4,053,209**	+17.70%	₱15,443,526
PSEi	**-3.70%**	**(4,053,209)**	-17.70%	(15,443,526)

The impact on other comprehensive income is arrived at using the reasonably possible change in PSEi and the specific adjusted beta of each stock the Company holds. Adjusted beta is the forecasted measure of the volatility of the security for a portfolio in comparison to the market as a whole.

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 table sets out the concentration of the claims liabilities by type of contract as of December 31.

	2019		
	Insurance contract liabilities	**Reinsurers' share of liabilities**	**Net**
Fire	**₱148,116,767**	**₱106,443,793**	**₱41,672,974**
Motor	**39,988,922**	**2,673,708**	**37,315,214**
Casualty	**13,948,613**	**4,929,384**	**9,019,229**
Marine	**3,549,694**	**204,518**	**3,345,176**
Engineering	**5,575,071**	**4,034,895**	**1,540,176**
Aviation	**131,314,521**	**129,190,421**	**2,124,100**
Bonds	**24,957,610**	**19,596,649**	**5,360,961**
	₱367,451,198	**₱267,073,368**	**₱100,377,830**

	2018		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Fire	₱109,768,193	₱67,706,572	₱42,061,621
Motor	37,194,072	4,483,659	32,710,413
Casualty	13,639,771	10,527,001	3,112,770
Marine	3,228,865	2,502	3,226,363
Engineering	2,182,046	571,716	1,610,330
Aviation	129,017,084	127,225,447	1,791,637
Bonds	1,129,812	351,643	778,169
	₱296,159,843	₱210,868,540	₱85,291,303

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

The variability of risks is 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 also limits 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 premiums retained.

The majority of reinsurance business ceded is placed on a quota share basis with retention limits varying by product line. 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 statements 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 reinsurers is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

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 or common significant influence.

Outstanding balances as of year-end and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2019 and 2018, the Company has not recorded any impairment on receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates. The related party transactions are to be settled in cash.

Transactions with related parties consist mainly of the following activities:

	2019		2018		
Category	**Amount**	**Outstanding Balance**	Amount	Outstanding balance	Terms and conditions
Stockholder					
Philippine National Bank (PNB)					
Premiums (b)	**₱21,921,814**	**₱1,713,717**	₱11,776,729	₱1,305,858	(i)
Commission (b)	**–**	**–**	179,839	–	(ii)
Other related parties					
Premiums (b)					(i)
Himmel Industries, Inc. (Himmel)	**3,952,689**	**161,298**	4,283,558	1,183,861	
Tanduay Distillers Inc.	**8,157,533**	**1,559,925**	7,758,990	5,099,498	
Fortune Tobacco Corp.	**5,771,029**	**5,119,347**	5,351,305	5,105,707	
PNB Savings Bank	**3,440,507**	**151,456**	1,874,277	10,585	

(Forward)

Category	2019 Amount	2019 Outstanding Balance	2018 Amount	2018 Outstanding balance	Terms and conditions
Absolute Chemicals Inc.	**₱41,535**	**₱2,561,751**	₱48,959	₱24,971	
Century Park Hotel	**4,060,938**	**861,599**	4,061,386	2,496,729	
Asia Brewery Incorporated	**50,437,419**	**1,620,433**	3,560,666	22,577,465	
Eton Properties Phils. Inc	**17,240,914**	**13,911,082**	21,897,590	26,688,851	
University of the East	**7,014,693**	**207,991**	7,207,306	128,659	
Foremost Farms Inc.	**987,011**	**159,650**	1,290,732	411,634	
Allied Leasing & Finance Corp.	**297,242**	**27,009**	309,932	1,086,833	
PNB General Insurers Company Inc.	–	**27,441**	–	11,852,885	
Commission (b)					(ii)
Himmel Industries, Inc. (Himmel)	**748,502**	–	638,285	–	
Eton Properties Phils. Inc	**819,365**	–	1,739,863	–	
PNB Savings Bank	**24,623**	–	–	–	
Tanduay Distillers Inc.	**1,251,365**	–	283,233	–	
PNB General Insurers Company Inc.	–	–	–	–	
Asia Brewery Incorporated	**40,186**	–	495,489	–	
University of the East	**875,489**	–	525,321	–	
Absolute Chemicals Inc.	**216,001**	–	6,871	–	
Century Park Hotel	**149,632**	–	629,546	–	
Fortune Tobacco Corp.	**450**	–	42,311	–	
Foremost Farms Inc.	**176,267**	–	241,093	–	
Allied Leasing & Finance Corp.	**505**	–	40,287	–	
	₱127,625,709	**₱28,082,699**	₱74,243,568	₱77,873,536	

(i) Interest-bearing, unsecured, no impairment
(ii) Non-interest bearing, due and demandable, unsecured

(a) The Company maintains savings accounts, current accounts and cash equivalents with PNB, details follow:

	2019	2018
Current account	**₱208,186,469**	₱161,009,765
Savings account	**3,510,701**	345,904
Time deposits	**144,033,971**	285,704,984
	₱355,731,141	₱447,060,653

(b) In the ordinary course of business, the Company accepts insurance business from related parties, normally through Himmel, the Company's general agent and a related party under common control. These transactions are based on terms similar to those offered to third parties.

(c) The Company's key management personnel include its executive, managers, supervisors and officer-in-charge. The summary of compensation of key management personnel is as follows:

	2019	2018
Salaries and other short-term employee benefits	**₱48,697,498**	₱32,742,828
Post-employment benefits and others	**9,724,648**	9,555,054
	₱58,422,146	₱42,297,882

26. Lease Commitments

The Company's branches entered into non-cancellable lease agreements with third parties for their office spaces. These leases are renewed annually upon mutual agreement of both parties.

As of December 31, 2019 and 2018, future minimum rentals payable under non-cancellable operating leases are as follow:

	2019	2018
Within one year	**₱26,741**	₱555,710

Rent expense charged against operations amounted to ₱0.53 million and ₱0.43 million in 2019 and 2018, respectively (Note 21).

27. Capital Management and Regulatory 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 affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

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

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

The Company reviews the capital requirements by monitoring the minimum statutory networth and the risk-based capital (RBC) which is regularly communicated to the major shareholders. With this procedure, shareholders are forewarned in anticipation of the IC requirements of additional capital infusion.

Shareholders are well updated with these externally imposed capital requirements since these are being discussed during the annual BOD meeting.

Minimum statutory networth
On August 5, 2013, the President of the Philippines approved RA No. 10607, known as the "New Insurance Code", which provides the new capitalization requirements for all existing insurance companies based on networth on a staggered basis starting June 30, 2013 up to December 31, 2022.

On January 13, 2015 the IC issued CL No. 2015-02-A, *Minimum Capitalization Requirements Under Sections 194, 197, 200 and 289 of Republic Act 10607 (The Amendment Insurance Code)*, which provides for the clarification of minimum capital requirements under Section 194, 197, 200 and 289 of the New Insurance Code. Under the said circular, non-life insurance companies duly licensed by the IC must have a networth of at least ₱250,000,000 by December 31, 2013. The minimum networth of the said companies shall increase to the following amount:

Compliance date	Minimum networth
December 31, 2016	₱550,000,000
December 31, 2019	900,000,000
December 31, 2022	1,300,000,000

The said circular supersedes Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008

As of December 31, 2019 and 2018, the Company's estimated and actual statutory networth amounted to ₱1,290,597,549 and ₱1,251,419,332, respectively.

RBC requirements
For purposes of the December 31, 2019 and 2018 financial reporting, the Company determined its compliance with the RBC requirements based on the provisions of CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, and IMC No. 7-2006, *Compliance to IC Requirements*, respectively. These circulars provide RBC frameworks for non-life insurance companies in order to establish the required amounts of capital to be maintained in relation to investment and insurance risks. A non-life insurance company is required to maintain a minimum RBC ratio ration shall subject the fail trend test on a yearly basis. Failure to meet the minimum RBC ratio shall subject the insurance company to corresponding regulatory intervention which has been defined at various levels.

Pursuant to CL no. 2017-15, effective January 1, 2017, non-life insurance companies are required to maintain the minimum RBC2 requirement as prescribed under CL No. 2016-68. Under the RBC2 framework, the RBC2 ratio shall be calculated as total available capital divided by the RBC2 requirement. The final RBC2 ratio can be determined only after the accounts of the Company have been examined by the IC.

The following table shows the final RBC2 ratio as audited by the IC for the year December 31, 2018.

Net worth	₱1,251,419,332
RBC requirement	320,056,095
RBC ratio	391%

The following table shows the estimated RBC2 ratio as of December 31, 2019 as determined by the Company based on the RBC2 framework:

Total available capital	₱1,656,077,574
RBC2 requirement	322,642,624
RBC2 ratio	513%

The total available capital shall be the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 2 capital does not have the same high-quality characteristics of Tier 1, but can provide an additional buffer to the insurer. Tier 2 capital shall not exceed 50% of Tier 1 capital. The RBC2 requirement shall be the capital that is required to be held in order to cover the risks an insurance company is exposed to and shall be computed using the formula as prescribed under CL No. 2016-68.

Net worth shall include paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC. The RBC requirement shall be computed using the formula prescribed under IMC No. 7-2016.

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

Financial reporting framework
CL No. 2016-65 prescribes the new financial reporting framework (FRF) that is used for the statutory quarterly and annual reporting effective January 1, 2017. This includes rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies.

The FRF includes the economic valuation of assets and liabilities based on internationally accepted accounting, actuarial and insurance core principles which requires quarterly and annual reporting of networth to the IC.

28. Maturity Analysis of Assets and Liabilities

The table below show the Company's asset and liabilities analyzed according to when they are expected to be recovered, settled or reversed.

	2019		
	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	₱439,538,290	₱–	₱439,538,290
Short-term investments	126,589,724		126,589,724
Insurance receivables – net	577,869,893	–	577,869,893
Financial assets			
Financial assets at FVPL	227,151,152	–	227,151,152
AFS financial assets	199,042,294	730,196,429	929,238,723
Loans and receivables	11,311,498	150,000,000	161,311,498
Accrued income	7,969,168	–	7,969,168
Reinsurance assets	443,426,725	–	443,426,725
Deferred acquisition costs	30,036,624	–	30,036,624
Property and equipment – net	–	27,051,184	27,051,184
Deferred tax assets – net	–	36,264,920	36,264,920
Other assets	–	133,387,761	133,387,761
	₱2,062,935,368	₱1,076,900,294	₱3,139,835,662
Liabilities			
Insurance contract liabilities	₱782,051,725	₱–	₱782,051,725
Accounts payable and accrued expenses	380,744,527	–	380,744,527
Insurance payables	229,154,062	–	229,154,062
Dividends payable	19,237,343	–	19,237,343
Deferred reinsurance commissions	19,585,277	–	19,585,277
Income tax payable	21,961,624	–	21,961,624
Net pension liability	–	4,156,157	4,156,157
	₱1,452,734,558	₱4,156,157	₱1,456,890,715

	2018		
	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	₱536,993,631	₱–	₱536,993,631
Insurance receivables – net	577,316,724	–	577,316,724
Financial assets			
Financial assets at FVPL	220,683,979	–	220,683,979
AFS financial assets	27,062,355	700,653,154	727,715,509
Loans and receivables	24,559,592	150,000,000	174,559,592
Accrued income	9,323,256	–	9,323,256
Reinsurance assets	368,091,356	–	368,091,356
Deferred acquisition costs	26,537,688	–	26,537,688
Net pension asset	–	963,671	963,671
Property and equipment – net	–	24,470,405	24,470,405
Deferred income tax assets – net	–	14,448,099	14,448,099
Other assets	–	64,649,494	64,649,494
	₱1,790,568,581	₱955,184,823	₱2,745,753,404
Liabilities			
Insurance contract liabilities	₱594,670,823	₱–	₱594,670,823
Accounts payable and accrued expenses	283,944,478	–	283,944,478
Insurance payables	301,256,571	–	301,256,571
Dividends payable	19,237,343	–	19,237,343
Deferred reinsurance commissions	14,706,719	–	14,706,719
	₱1,213,815,934	₱–	₱1,213,815,934

29. Note to Statements of Cash Flows

The table below shows the changes in liabilities arising from financing activities:

	2019		
	Balance at beginning of year	**Cash outflows**	**Balance at end of year**
Dividends payable	**₱19,237,343**	**₱–**	**₱19,237,343**

	2018		
	Balance at beginning of year	Cash outflows	Balance at end of year
Dividends payable	₱64,687,298	(₱45,449,955)	₱19,237,343

30. Events After the Reporting Period

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until May 15, 2020. Under Resolution No. 37 of the Inter-Agency Task Force (IATF), it implemented the

shift to modified enhanced community quarantine (MECQ) that will be in effect in the National Capital Region, the province of Laguna, and Cebu City starting May 16 until May 31, 2020. The latest guidelines issued was Resolution No. 46-A of IATF which will place most of the areas into general community quarantine (GCQ) including Metro Manila until June 30, 2020. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Company's focus during this quarantine has always been service to its policyholders and other stakeholders while ensuring utmost safety and care of its personnel. As such, the Company continues to provide products and services to its policyholders and stakeholders through flexible work arrangements, as maybe deemed required.

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

The Company expects the distribution of its products that requires face-to-face interaction could cause financial impact against the Company's projections in its limited retail channel. However, the Company will continue to monitor and mitigate the situation by creating new products and always maintaining a balanced distribution network across the country.

So far, Senior Management has decided to adjust its Gross Revenue targets for 2020 by, at present, pegging it at 2019 levels and also pegging its Net Income target at 2019 levels. This, however, can change depending on how much longer the quarantine will be enforced by the Government and how much longer the virus will continue to be an immediate risk.

31. Supplementary Tax Information under Revenue Regulations 15-2010

In compliance with the requirements set forth by Revenue Regulations No. 15-2010 issued by the Philippine Bureau of Internal Revenue (BIR) hereunder are the information on taxes and licenses fees paid or accrued during the taxable year 2019.

VAT

The Company is a VAT-registered entity with VAT output tax declarations for premiums, commissions and other miscellaneous collections as follows:

	Amount	Output VAT
VATable sales	₱438,647,467	₱52,629,940

'VAT zero-rated sales" pertains to gross receipts/collections on premiums from contracts issued to PEZA entities of which are entitled to VAT zero-rating under Section 108(B)(7) of the 1997 Tax Code. On the other hand, "VATable sales", pertains to gross receipts/collections from the issuance of policy from other sources.

The Company has no output VAT from sales of goods and leasing income. There are no exempt sales and zero-rated sales during the year.

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

Balance at January 1, 2019	(₱565,982)
Current year's domestic purchases/payments for:	
Services lodged under other accounts	(13,622,273)
	(14,188,255)
Input VAT applied to output VAT	14,188,255
Balance at December 31, 2019	₱–

Other taxes and license fees
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees. Details consist of the following:

Local:	
Local government tax	₱641,797
Clearance and certificate fees	219,526
Business permit	6,100
Community tax	10,500
Others	2,621,823
	3,499,746
National:	
Filing of annual statement	40,400
VAT registration	2,500
	42,900
	₱3,542,646

Documentary Stamp Tax (DST)
The DST paid for the current year amounted to ₱57,931,763 which is based on premiums written during the year amounting to ₱699,082,982.

The Company has taxes relating to non-life insurance policies that has been passed on to the policyholders and are not recognized in the statement of income. Details of these taxes in 2018 follow:

Fire service tax	₱3,137,699
Premium tax	4,885,440
	₱8,023,139

Withholding taxes
The amount of withholding taxes paid and accrued for the year amounted to:

Expanded withholding taxes	₱5,868,606
Withholding taxes on compensation and benefits	9,453,797
Final withholding taxes	274,281
	₱15,596,684

Tax assessments and cases
The Company has no final assessment notice and/or formal letter of demand from the BIR. In addition, the Company has no on-going pending tax case outside the administration of the BIR.

ALLIEDBANKERS INSURANCE CORPORATION
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We cover, you recover.

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Branch Head: **Ms. Meishie Lavarez**

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