Etiqa Life and General Assurance Philippines, Inc.
(Formerly AsianLife and General Assurance Corporation)

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	1	0	1	5	5	9	2

COMPANY NAME

ETIQA LIFE AND GENERAL ASSURANCE PHILIPPINES INC. (FORMERLY, ASIANLIFE AND GENERAL ASSURANCE CORPORATION)

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

3rd Floor, Morning Star Center Sen. Gil J. Puyat Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
https://www.etiqa.com.ph	8890-1758	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
11	March 17	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
James Patrick Q. Bonus	jqbonus@etiqa.com.ph	8890-1758	0917-3067616

CONTACT PERSON's ADDRESS

3rd Floor, Morning Star Center, 347 Sen. Gil J. Puyat Avenue, Makati City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

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
Etiqa Life and General Assurance Philippines, Inc.
3rd Floor, Morning Star Center
Sen. Gil J. Puyat Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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 Fund'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 Fund 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 Regulation No. 15-2010 in Note 28 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 Etiqa Life and General Assurance Philippines, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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

February 21, 2020

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

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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.

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- 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 Fund'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 Fund 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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SYCIP GORRES VELAYO & CO.

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

February 21, 2020

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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Etiqa Life and General Assurance Philippines, Inc.
7th, Floor Tower 1, The Rockwell Business Center
Ortigas Avenue, Pasig City

We have audited the financial statements of Etiqa Life and General Assurance Philippines, Inc. (the Company) as at and for the year ended December 31, 2019, on which we have rendered the attached report dated February 19, 2020.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Company has three (3) stockholders owning one hundred (100) or more shares.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
SEC Accreditation No. 0926-AR-3 (Group A),
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March 14, 2018, valid until March 13, 2021
PTR No. 8125286, January 7, 2020, Makati City

February 19, 2020

ETIQA LIFE AND GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Cash and cash equivalents (Notes 6, 25 and 26)	**₱892,727,395**	₱943,737,667
Insurance receivables (Note 7)	**553,930,660**	403,777,850
Reinsurance assets (Note 7)	**19,616,422**	37,209,928
Financial assets (Notes 8 and 26)		
At fair value through other comprehensive income (FVOCI)	**1,596,364,800**	1,439,607,972
At fair value through profit or loss (FVPL)	**264,692,314**	243,601,036
At amortized cost	**395,240,606**	152,060,278
Accrued interest receivable (Notes 6 and 8)	**13,783,028**	11,780,250
Due from related parties (Note 25)	**1,584,244**	–
Segregated fund assets (Note 12)	**1,214,808,609**	163,998,882
Right-of-use assets - net (Note 10)	**43,530,829**	–
Property and equipment - net (Note 9)	**32,560,833**	15,374,814
Intangible assets - net (Note 9)	**12,109,462**	13,047,575
Deferred tax assets - net (Note 24)	**25,400,712**	23,698,974
Other assets (Notes 11 and 26)	**70,609,277**	29,801,016
	₱5,136,959,191	₱3,477,696,242
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 12 and 26)	**1,346,399,595**	1,074,591,011
Accounts payable and other liabilities (Notes 13 and 26)	**454,937,146**	428,680,581
Insurance payables (Note 14)	**109,706,852**	119,534,335
Lease liabilities (Note 10)	**47,542,631**	–
Due to related parties (Note 25)	**11,674,434**	11,476,466
Segregated fund liabilities (Note 12)	**1,214,808,609**	163,998,882
Net pension liability (Note 22)	**13,666,585**	1,637,771
Total Liabilities	**3,198,735,852**	1,799,919,046
Equity		
Capital stock - issued and outstanding (Note 15)		
Common stock	**1,161,720,830**	1,161,720,830
Preferred stock	**5,005,960**	5,005,960
Contributed surplus (Note 15)	**39,784,362**	39,784,362
Other comprehensive income (loss)		
Unrealized gains (losses) on financial assets at FVOCI (Note 8)	**7,054,271**	(55,616,041)
Actuarial gains on pension liability (Note 22)	**(3,512,746)**	6,053,863
Remeasurement of life insurance reserves (Note 12)	**(10,232,093)**	(817,182)
Retained earnings	**738,402,755**	521,645,404
Total Equity	**1,938,223,339**	1,677,777,196
	₱5,136,959,191	₱3,477,696,242

See accompanying Notes to Financial Statements.

ETIQA LIFE AND GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
INCOME		
Gross earned premiums on insurance contracts	**₱4,345,248,971**	₱3,006,768,189
Reinsurers' share of gross earned premiums on insurance contracts	**(17,424,340)**	(65,683,355)
Net insurance premiums earned (Note 16)	**4,327,824,631**	2,941,084,834
Interest income (Note 17)	**121,073,742**	94,697,227
Gain on sale of financial assets at FVOCI (Note 8)	**40,449,942**	–
Fair value gains on financial assets at FVPL - net (Note 8)	**6,157,870**	–
Service and network fees (Note 17)	**73,984,492**	31,747,465
Third party administration fees (Note 17)	**25,874,847**	23,077,274
Others (Note 17)	**19,611,214**	13,664,205
	287,152,107	163,186,171
	4,614,976,738	3,104,271,005
EXPENSES		
Underwriting Expenses – Net		
Net benefits and claims incurred on insurance contracts (Note 18)	**2,122,296,120**	1,778,108,941
Transfer to segregated funds	**1,205,573,203**	109,599,912
Expenses for the acquisition of insurance contracts (Note 19)	**610,453,133**	567,403,202
Net change in legal policy reserves (Note 12)	**7,196,648**	(311,235)
	3,945,519,104	2,454,800,820
Other Expenses		
General and administrative (Note 20)	**389,514,684**	307,015,172
Fair value losses on financial assets at FVPL - net (Note 8)	**–**	22,322,195
Loss on sale of financial assets at FVOCI (Note 8)	**–**	6,374,837
Loss on foreign currency transaction	**–**	390,325
Interest expense (Notes 10, 12 and 13)	**5,141,890**	50,639
	394,656,574	336,153,168
	4,340,175,678	2,790,953,988
INCOME BEFORE INCOME TAX	**274,801,060**	313,317,017
PROVISION FOR INCOME TAX (Note 24)	**57,743,352**	88,061,470
NET INCOME	**217,057,708**	225,255,547
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of financial assets at FVOCI during the year (Note 8)	**62,670,312**	(51,068,949)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Actuarial gains on pension liability - net of tax effect (Note 22)	**(9,566,609)**	5,971,907
Remeasurement of life insurance reserves (Note 12)	**(9,414,911)**	9,024,709
	43,688,792	(36,072,333)
TOTAL COMPREHENSIVE INCOME	**₱260,746,500**	₱189,183,214

See accompanying Notes to Financial Statements.

ETIQA LIFE AND GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock - Issued and Outstanding (Note 15)			Other Comprehensive Income (Loss)				
	Common Stock	**Preferred Stock**	**Contributed Surplus** (Note 15)	**Unrealized Gains (Losses) on Financial Assets at FVOCI** (Note 8)	**Actuarial Losses on Pension Liability** (Note 22)	**Remeasurement of life insurance reserves** (Note 12)	**Retained Earnings** (Note 15)	**Total**
As at January 1, 2019	**₱1,161,720,830**	**₱5,005,960**	**₱39,784,362**	**(₱55,616,041)**	**₱6,053,863**	**(₱817,182)**	**₱521,645,404**	**₱1,677,777,196**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**217,057,708**	**217,057,708**
Other comprehensive income	**–**	**–**	**–**	**62,670,312**	**(9,566,609)**	**(9,414,911)**	**–**	**43,688,792**
Total comprehensive income	**–**	**–**	**–**	**62,670,312**	**(9,566,609)**	**(9,414,911)**	**217,057,708**	**260,746,500**
Cumulative preferred stock dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(300,357)**	**(300,357)**
As at December 31, 2019	**₱1,161,720,830**	**₱5,005,960**	**₱39,784,362**	**₱7,054,271**	**(₱3,512,746)**	**(₱10,232,093)**	**₱738,402,755**	**₱1,938,223,339**
As at January 1, 2018	1,161,720,830	5,005,960	39,784,362	(4,547,092)	81,956	(9,841,891)	297,290,929	1,489,495,054
Net income		–	–	–	–	–	225,255,547	225,255,547
Other comprehensive income	–	–	–	(51,068,949)	5,971,907	9,024,709	–	(36,072,333)
Total comprehensive income	–	–	–	(51,068,949)	5,971,907	9,024,709	225,255,547	189,183,214
Cumulative preferred stock dividends	–	–	–	–	–	–	(901,072)	(901,072)
As at December 31, 2018	₱1,161,720,830	₱5,005,960	₱39,784,362	(₱55,616,041)	₱6,053,863	(₱817,182)	₱521,645,404	₱1,677,777,196

See accompanying Notes to Financial Statements.

ETIQA LIFE AND GENERAL ASSURANCE PHILIPPINES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱274,801,060**	₱313,317,018
Adjustments for:		
Fair value losses (gains) on financial assets at FVPL (Note 8)	**(6,157,870)**	22,322,195
Depreciation and amortization (Notes 9, 10 and 23)	**29,455,501**	9,544,730
Interest expense	**5,141,890**	50,639
Increase in segregated fund liabilities (Note 12)	**1,050,809,727**	78,736,937
Net change in legal policy reserves (Note 12)	**7,196,648**	(311,235)
Increase in unearned premium reserves (Note 12)	**242,910,033**	319,511,590
Increase (decrease) in reserves for claims IBNR (Note 12)	**14,056,634**	24,620,424
Recovery from impairment of financial assets at amortized cost/loans and receivables (Note 8)	**(1,684,483)**	(219,667)
Provision for (recovery from) impairment of financial assets at FVOCI (Note 8)	**(6,217,666)**	962,134
Write-off of financial assets at amortized cost/loans and receivables (Note 8)	**–**	796,209
Gain on pre-termination of lease (Note 10)	**(563,699)**	
Interest income (Note 17)	**(121,073,742)**	(94,697,227)
Operating income before working capital changes	**1,488,674,033**	674,633,747
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at amortized cost	**(89,459,683)**	(49,677,062)
Segregated fund assets	**(1,050,809,728)**	(78,736,937)
Other assets	**(40,808,261)**	429,890
Insurance receivables	**(150,152,810)**	(28,204,973)
Reinsurance assets	**17,593,506**	(6,205,304)
Increase (decrease) in:		
Insurance contract liabilities	**(1,769,642)**	(229,537,982)
Insurance payables	**(9,827,483)**	60,118,789
Accounts payable and other liabilities	**23,560,532**	43,693,360
Premium deposit fund	**–**	(85,401)
Net pension liability	**(1,637,771)**	585,778
Net cash generated from operations	**185,362,693**	387,013,905
Interest paid	**(5,141,890)**	(52,101)
Income taxes paid	**(56,638,644)**	(93,736,135)
Net cash provided by operating activities	**123,582,159**	293,225,669
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**62,875,836**	100,092,814
Proceeds from:		
Disposal and maturities of financial assets at FVOCI (Note 8)	**1,903,489,281**	965,076,581
Disposal of financial assets at FVPL (Note 8)	**186,792,414**	320,230,627
Salary loans	**103,849,284**	27,117,658
Disposal of short-term investments	**–**	155,000,000
Acquisitions of:		
Financial assets at FVOCI (Note 8)	**(1,931,310,084)**	(997,681,231)

(Forward)

	Years Ended December 31	
	2019	2018
Salary loans	**(₱255,885,445)**	(₱40,311,701)
Financial assets at FVPL (Note 8)	**(201,725,821)**	(356,296,459)
Property and equipment (Note 9)	**(24,983,915)**	(8,513,587)
Intangible assets (Note 9)	**(826,519)**	(1,214,052)
Net cash provided by (used in) investing activities	**(157,724,969)**	163,500,650
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of lease liabilities (Note 10)	**(15,481,186)**	–
Decrease (increase) in amounts in due from related parties	**(1,584,244)**	127,217
Increase in amounts in due to related parties	**197,968**	3,496,221
Net cash provided by (used in) financing activities	**(16,867,462)**	3,623,438
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(51,010,272)**	460,349,757
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**943,737,667**	485,296,988
IMPACT OF PFRS 9 ADOPTION	**–**	(1,909,078)
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱892,727,395**	₱943,737,667

See accompanying Notes to Financial Statements.

1. Corporate Information

Etiqa Life and General Assurance Philippines, Inc. (ELGAP or the "Company") was incorporated on October 4, 2010 as AsianLife and General Insurance Corporation (ALGA), the successor-in-interest of a corporate entity which also bears the same name (the "Old ALGA" - with SEC No. 14341), the corporate term of which expired on August 22, 2008.

The Company's primary purpose is to carry on the business of insurance upon lives of individuals and the business of non-life insurance; to grant contract of insurance and reinsurance providing for all risks, hazards, guarantees and contingencies to which life, accidents or health insurance is applicable and to grant or effect assurance of all kinds of payment of money by way of single payment or by several payments, or by any person of immediate or referred annuities upon the death of or upon reaching a given age by any person or persons subject or not such death or age requirement or happening of any contingency or event dependent upon human life or upon a fixed or given date.

On September 25, 2013, Maybank ATR KimEng Financial Corporation (formerly ATR KimEng Financial Corporation) which owned 95.24% of the outstanding common stock and was deemed the parent company of the Company sold all its 95.24% ownership interest over ALGA shares to its affiliate, Maybank ATR KimEng Capital Partners, Inc. (MATRKECP). MATRKECP, an investment house with trust license, is a domestic corporation owned by MaybankKimEng Holdings Limited (MAKEHL) and ATR Holdings, Inc. (ATRH). ATRH is a domestic corporation, while MAKEHL is a conglomerate whose shares are listed in the Singapore Stock Exchange. The Insurance Commission approved the sale on October 17, 2013.

On December 1, 2014, ATRH sold the Company's preferred shares representing 50.30% voting interest of the latter to Etiqa International Holdings Sdn. Bhd (EIHSB), a subsidiary of Maybank in Malaysia.

On the same date, MATRKECP and EIHSB executed a Joint Voting Agreement (JVA), which provided that EIHSB shall vote all of its shares in the Company on any and all matters requiring the resolution of the shareholders of the Company in such manner as MATRKECP. The JVA shall be effective unless terminated by mutual agreement by MATRKECP and EIHSB. The Insurance Commission approved the transfer of shares on April 10, 2015. This JVA was terminated in 2016.

On December 20, 2016, the Board of Directors and Stockholders of the Company approved a resolution approving the amendment of the Articles of Incorporation to increase the authorized common stock from 49,499,404 common shares with par value of ₱10 per share to 124,499,404 common shares with par value of ₱10 per share (Note 15). This resulted to an increase in authorized capital stock from ₱500,000,000 to ₱1,250,000,000. The increase in capital stock was endorsed by the Insurance Commission (IC) last January 3, 2017 and was approved by the Securities and Exchange Commission last August 31, 2017.

On June 1 and June 8, 2017, EIHSB infused additional capital amounting to ₱330,000,000 and ₱305,000,000, respectively, totaling ₱635,000,000 corresponding to 63,500,000 common shares.

On June 14, 2017, E-marc Consultants, Inc. infused additional capital amounting to ₱31,726,790 corresponding to 3,172,679 common shares

In 2019, the Company underwent a rebranding campaign and changed its corporate name from AsianLife and General Assurance Corporation to Etiqa Life and General Assurance Philippines, Inc., in a drive to establish a more unified visual identity for the Etiqa Group in Southeast Asia and to strengthen the "Etiqa" brand and its ability to gain greater recognition regionally. The change in corporate name was approved by the Board of Directors on June 17, 2019 and by the Securities and Exchange Commission on June 19, 2019.

As of December 31, 2019 and 2018, EIHSB owns 38.20% common shares of the total outstanding and issued common shares of ELGAP and 30.10% preferred shares with 28.36% common shares owned by MATRKECP and 3.33% owned by E-MARC Consultants, Inc.

The ultimate parent company of ELGAP is Malayan Banking Berhad of Malaysia.

The Company's registered office address, which is also its principal place of business, is 3rd Floor, Morning Star Center, Sen. Gil J. Puyat Avenue, Makati City.

2. Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) financial assets, and segregated fund assets which are carried at fair value.

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

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

3. Changes in Accounting Policies

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

- PFRS 16, *Leases*

  PFRS 16 replaces PAS 17, *Leases* and IFRIC 4, *Determining whether an Arrangement contains a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessee to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17. Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessor will continue to classify leases as either operating or finance leases using similar principles as in PAS 17 and IFRIC 4 at the date of initial application.

  On January 1, 2019, the Company applied PFRS 16 for the first time using the modified retrospective approach, which requires the recognition of the cumulative effect of initially applying PFRS 16 to the retained earnings brought forward and not restating prior year/period comparative information which remains as previously reported under PAS 17 and related interpretations. The Company also made use of the transition practical expedient in the standard to not recognize lease arrangements for which the lease term ends within 12 months from the date of initial application. The Company has elected, on a lease-by-lease basis, to recognize the right-of-use assets at the amount equal to the lease liabilities, hence there was no impact to the retained earnings brought forward as at January 1, 2019.

The Company elected the following transition practical expedients on a lease-by-lease basis for measurement purposes at first-time application of the standard:

- A single discount rate was applied for the portfolio of leases with reasonably similar characteristics such as leases with a similar remaining lease term for a similar class of underlying assets in a similar economic environment;
- Short-term lease contracts with terms not exceeding 12 months at the date of initial application are not recognized under PFRS 16;
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application; and
- The Company used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

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

Operating lease commitments as at December 31, 2018	**₱9,683,964**
Current leases with lease terms of 12 months or less (short-term lease)	(709,186)
Reasonably certain extension or termination options	67,239,646
Operating lease commitments as at January 1, 2019 (undiscounted)	**76,214,424**
Effect of discounting at the incremental borrowing rate as of January 1, 2019	(9,682,860)
Total lease liabilities as at 1 January 2019	**₱66,531,564**

The quantitative impact of the first-time application of PFRS 16 on the Company's Statement of Financial Position as of January 1, 2019 are shown below:

	As at December 31, 2018 (Under PAS 17)	**Modified retrospective application adjustments to PFRS 16**	**As at January 1, 2019 (Under PFRS 16)**
ASSETS			
Right-of-use assets - net	**₱–**	**₱66,531,564**	**₱66,531,564**
LIABILITIES			
Lease liabilities	**₱–**	**₱66,531,564**	**₱66,531,564**

The adoption of PFRS 16 did not have an impact on the beginning balance of equity in 2019, since the Company elected to measure the right-of-use assets at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that leases recognized in the statement of financial position immediately before the date of initial application.

Due to the adoption of PFRS 16, the Company's operating profit in 2019 was impacted negatively. Interest expense and depreciation increased but rent expense decreased. This was due to the change in the accounting for rental payments related to leases that were classified as operating leases under PAS 17.

The impact of the application of PFRS 16 to the Statement of Comprehensive Income for the year ended December 31, 2019 are shown as below:

Right-of-use asset depreciation expense	₱19,892,973
Interest expenses - finance lease obligation	4,600,371
Rent expense - short term leases	6,451,614
	₱30,944,958

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

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

Effective beginning on or after January 1, 2020

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

Effective beginning on or after January 1, 2023

- PFRS 17, *Insurance Contracts*

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

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

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

The standard is effective for annual periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies PFRS 9 and PFRS 15 on or before the date it first applies PFRS 17. An entity shall apply PFRS 17 retrospective approach for estimating the CSM on the transition date. However, if full retrospective application for estimating the CSM, is impracticable, an entity is required to choose one of the following two alternatives:

- Modified retrospective approach

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

- Fair value approach

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

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

Assessment is currently being made across the region for all Etiqa entities, where the Etiqa group has established a project team, with assistance from the Actuarial, Finance, Risk, IT and various Business sectors to study the implication and to evaluate the potential impact of adopting this standard on the required effective date.

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*

4. Summary of Significant Accounting Policies

Revenue Recognition

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all direct business arrangements and as an agent in all its ceded out businesses. The following specific recognition criteria must also be met before revenue is recognized:

Premiums Revenue - Life

Premiums arising from life insurance contracts are generally recognized as income when received and on the issue date which coincides with the effective date of the insurance policies for the first-year premiums.

For the renewal business, premiums are recognized as income when still in-force and in the process of collection based on actuarial methods and assumptions. Renewal premiums from life insurance contracts are recognized as revenue by the Company and payable by the policyholder. Receivables are recorded at the date when payments are due. Premiums are shown before deduction of commissions and reinsurers' share on gross premiums.

Premiums Revenue - Nonlife

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

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where premiums for the last two months are considered earned the following year.

The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period is accounted for as Provision for unearned premiums as part of "Insurance Contract Liabilities" in the statement of financial position. The net changes in these accounts between each end of reporting periods are recognized in profit or loss.

Service and network fees

Service and network fees are recognized when earned normally upon performance of the service and fulfillment of the Company's obligation for the issuance of health cards to give network access to the policyholders.

Third party administration fee
Revenue is recognized when earned, which is upon the performance of the obligation for administration (based on the terms of the contract) of policyholder's medical and health expenses. This is considered to be satisfied upon actual processing of the client's utilization.

Interest income
For all interest-bearing financial assets measured at amortized cost, interest income is recognized using the effective interest method. The effective interest rate (EIR) exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset. The change in carrying amount is recorded as interest income for the period.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, 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.

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

<u>Benefits, Claims and Expenses Recognition</u>
Benefits and claims - Life
Benefits and claims consist of benefits and claims paid to policyholders as well as changes in the valuation of insurance contract liabilities and reserve for policyholders' dividends. These are recorded when notices of claims have been received and dividends have been incurred or when policies reach maturity. For unpaid benefits, a liability is recognized for the estimated cost of all claims made but not settled as of reporting date less reinsurance recoveries. Provision is also made for the cost of claims incurred as of reporting date but not reported (IBNR) until after the reporting date based on the Company's experience and historical data. Differences between the provision for outstanding claims at the reporting date and subsequent revisions and settlements are included in profit or loss in the statement of comprehensive income of subsequent years. Unpaid benefits to life policies form part of policy and contract claims payable included in "Insurance Contract Liabilities" in the statement of financial position.

Benefits and claims - Nonlife
Benefits and claims for Non-life include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Direct costs and expenses - Life
Commissions and other expenses for the acquisition of insurance contracts are expensed as incurred.

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract. Amortization is charged against profit or loss. The unamortized acquisition costs are shown as 'Deferred acquisition costs' in the statement of financial position.

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

General and administrative expenses

General and administrative expenses constitute costs of administering the business. These are recognized when incurred.

Interest expense

Interest expense on accumulated policyholders' dividends and premium deposit fund is recognized in profit or loss in the statement of comprehensive income as it accrues and is calculated using the effective interest method. Accrued interest is credited to the liability account every policy anniversary date.

Cash and Cash Equivalents

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

Premiums Due and Uncollected

Premiums due and uncollected are recognized when due and measured on initial recognition at the fair value of the consideration to be received. The carrying value of premiums due and uncollected is reviewed for impairment whenever events or circumstances indicate the carrying amount may not be recoverable, with the impairment loss recorded in profit or loss in the statements of comprehensive income.

Premiums due and uncollected are derecognized following the derecognition criteria for financial instruments.

Financial Instruments

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

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

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

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

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

- Financial assets at fair value through OCI
- Financial assets at amortized cost
- Financial assets at fair value through profit or loss

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

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

Financial assets included within the FVOCI category are initially recognized and subsequently measured at fair value. Movements in the carrying amount should be recorded through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. Where the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

The Company's debt instruments at fair value through OCI are composed of investments in government and corporate debt securities. It includes both those directly held by the company and those under investment management agreement (IMA) with ATRAM Trust Corporation.

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

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

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

The Company's financial assets at amortized cost includes Salary Loans, Mortgage Loans, Accounts receivable, and other receivables.

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

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

This category includes government and corporate debt securities, listed equity securities and proprietary shares, as well as investments in Mutual Funds and Unit Investment Trust Funds (UITFs) both held by the Company and those under its 02-IM-01 account (IMA account) managed by ATRAM Trust Corporation.

Reclassifications
If cash flows are realized in a way that is different from the entity's expectations at the date that management assessed the business model, this fact does not give rise to a prior period error in the entity's financial statements (in accordance with PAS 8).

Reclassifications should be accounted for only when an entity changes its business model for managing financial assets. Changes to the business model are expected to be infrequent; the change is determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and should be evident to external parties. A change in an entity's business model will occur when an entity either begins or ceases to perform an activity that is significant to its operations.

Reclassifications should be accounted for prospectively from the reclassification date. An entity should not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

Impairment
The Company assesses the impairment of financial assets based on a forward-looking Expected Credit Loss ("ECL") model instead of the incurred loss model. The ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. This applies to financial assets measured at amortized cost or at FVOCI, loans and cash equivalents held by the Company.

ECL would be recognized from the point at which financial assets are originated or purchased. A 12 months ECL must be recognized initially for all assets subject to impairment. The measurement of expected loss will involve increased complexity and judgment that include:

(i) Determining a significant increase in credit risk since initial recognition

The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-months ECLs and one that is based on lifetime ECLs. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition. The company applies a three-stage approach based on the change in credit quality since initial recognition:

Stage 1 – includes financial instruments that have not had a significant increase in credit risk ("SICR") since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month ECL are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL is the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

Stage 2 – includes financial instruments that have had a SICR since initial recognition but do not have objective evidence of impairment. For these assets, lifetime ECL is recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Stage 3 – includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

(ii) Forward looking information and ECL measurement

The amount of credit loss recognized is based on forward looking estimates that reflect current and forecast credit conditions. The forward looking adjustment is interpreted as an adjustment for the expected future economic conditions, as indicated by different macroeconomic factors and/or expert experienced in credit judgment. A forward looking ECL calculation is based on an accurate estimation of current and future probability of default ("PD"), exposure of default ("EAD"), loss given default ("LGD") and discount factors.

PD (Probability of default)

PD provides an estimate of the likelihood that a borrower will be unable to meet its debt obligation or default over a particular time horizon, usually in the course of 1 year.

ECL computations under PFRS 9 requires 12-month and lifetime PD estimations. The 12-month ECL is based on the probability of default occurring in the 12-month after the reporting date. The lifetime ECL is calculated by adding the 12-month ECL with the expected loss arising from a default occurring in each subsequent year throughout the expected life of the financial instruments.

In order to recognize lifetime ECL, a PD term structure was constructed using a statistical approach (or external data depending on data availability). PFRS 9 also requires the application of forward-looking adjustments into the PD computation to reflect future macroeconomic scenarios.

LGD (Loss Given Default)

LGD is defined as the percentage of exposure the Company might lose in case the borrowers default. These losses are usually shown as a percentage of Exposure at Default ("EAD"), and depend, amongst others, on the type and amount of collateral as well as the types of borrower and the expected proceeds from the work-out of the assets. The LGD takes on values from 0 to 1, where an LGD of 0 indicates that the overdue balance has been fully recovered and an LGD of 1 indicates complete loss of the EAD.

Fair Value Measurement

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

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

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

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

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

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

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

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

<u>Other Financial Liabilities</u>
Issued financial instruments or their components, which are not classified 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 instrument to the holder or lender, 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 the Company’s own equity instruments.

After initial measurement, these 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 EIR. The amortization is included as part of interest expense for the period. This category includes the Company’s accounts payable and other liabilities (except government and statutory liabilities), due to related parties, premium deposit fund, and “claims payable and policyholders’ dividends” (included under “Insurance Contract Liabilities” account in the statements of financial position).

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset, and the net amount is reported in the statements 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. This is not generally the case with master netting agreements, thus, the related assets and liabilities are presented on a gross basis in the statements of financial position.

Reinsurance

Contracts entered into by the Company with reinsurers which compensate the Company for losses on one or more contracts insured by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are classified as insurance contracts. Income from reinsurance contracts are classified within "Reinsurers' share of gross premiums on insurance contracts" in the statements of comprehensive income. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits recoverable by the Company under its reinsurance contracts are recognized as reinsurance assets. These assets consist of amounts due from reinsurers classified as "Financial assets at amortized cost". Due to reinsurers for reinsurance contracts are recognized as an expense upon recognition of premiums on the related insurance contract, classified as "Accounts payable and other liabilities". Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with terms of each reinsurance contract.

The Company assesses its reinsurance assets for impairment at least annually. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in profit or loss in the statement of comprehensive income. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for financial assets.

Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts sold are recognized when due.

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 has 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 has: (a) transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Related Party Transactions
Related party relationships exist when one party has the ability to control or influence the other party, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely legal form.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation, amortization and any impairment loss. The initial cost of property and equipment comprises its purchase price and other costs directly attributable to bringing the asset to its working condition and location for its intended use.

Depreciation and amortization is computed using the straight-line method over the estimated useful life (EUL) of the assets. Leasehold improvements are amortized over the EUL of the improvements or the term of the related lease, whichever is shorter. The EUL of the different categories of property and equipment are as follows:

	Years
Office furniture, fixtures and equipment	3 - 5
Leasehold improvements	5
Transportation equipment	5
Software	5

Subsequent costs are included in the asset's carrying amount or are recognized as asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to current operations when incurred.

The asset’s residual values, useful lives, and depreciation and amortization method are reviewed at each reporting date and adjusted, if appropriate, to ensure that these factors and assumptions are consistent with the expected pattern of consumption of future economic benefits embodied in the asset.

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

Leases starting January 1, 2019 (PFRS 16)
Upon implementation of PFRS 16 Leases on January 1, 2019, the lessees are required to perform the right-of-use assessment to all the leases whether it shall be recorded as either under a single on-balance sheet model or recognition to profit or loss. The lease accounting is as below:

- Right-of-use Assets (ROU)

  At inception of a contract, the Company assesses whether a contract is, or contains, a lease arrangement based on whether the contract that conveys to the user ("the lessee") the right to control the use of an identified asset for a period of time in exchange for consideration. If a contract contains more than one lease component, or a combination of leasing and services transactions, the consideration is allocated to each of these lease and non-lease components on conclusion and on each subsequent re-measurement of the contract on the basis of their relative stand-alone selling prices. The Company combines lease and non-lease components, in cases where splitting the non-lease component is not possible.

  The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option.

  The recognized right-of-use assets are depreciated on a straight-line basis over the lease term of the related contract.

- Lease Liabilities

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

  In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 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 P250,000.00). 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 prior to January 1, 2019 (PAS 17)
Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognized as a reduction of rental expense over the lease term on a straight-line basis. In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and buildings elements in proportion to the relative fair values for leasehold interests in the land and building element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortized on a straight-line basis over the lease term.

Impairment of Non-financial Assets
The Company assesses whether there is any indication that its nonfinancial assets such as its right-of-use asset, property and equipment and intangible assets may be impaired. When an indicator of impairment exists (or when an annual impairment testing for an asset is required), the Company estimates the recoverable amount of the impaired asset. The recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An impairment loss is charged to profit or loss in the period when it arises, consistent within the function of impaired assets.

For nonfinancial assets, an assessment is made at every reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying value does not exceed the carrying value that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization is adjusted in future years to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Insurance Contract Liabilities - Life
Legal policy reserves represent the accumulated total liability for policies in-force at the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life and non-life insurance policies in-force as of reporting date. For life insurance, the reserves are calculated using actuarial methods and assumptions as approved by the Insurance Commission, subject to the liability adequacy test. As of December 31, 2019, the insurance contract liabilities for life policies is measured using the GPV valuation.

A number of life insurance contracts issued by the Company include discretionary participation feature. This feature entitles policyholders to policy dividends whose amounts and timing of payments are under the discretion of the Company. The Company's policy dividends are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under "Net benefits and claims incurred on insurance contracts" account in the statements of comprehensive income with the corresponding liability recognized under the "Insurance contract liabilities" account in the statements of financial position.

Liability adequacy test
At each reporting date, a liability adequacy test is performed for the insurance contract liabilities. In performing this test, current best estimates of future cash flows and claims handling and administration expenses, as well as investment income from the asset backing such liabilities, are used. Any deficiency is immediately charged against profit or loss (Note 12).

Long-term insurance contracts are measured based on assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

Insurance Contract Liabilities - Non-Life
For non-life insurance, insurance contract liabilities are recognized when the contract are entered into and the premiums are recognized. The reserves for non-life insurance contracts is calculated using the 24^{th} method. The proportion of written premiums, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24^{th} method.

Unit Linked Insurance Contracts
The Company issues unit-linked insurance contracts. In addition to providing life insurance coverage, a unit-linked contracts links payment to insurance investment funds set-up by the Company with the consideration received from the policyholders. As allowed by PFRS 4, *Insurance Contracts*, the Company chose not to unbundle the investment portion of its unit-linked products. Premiums received from the issuance of unit-linked insurance contracts pertaining to the insurance portion are recognized as premium revenue.

The Company withdraws from the consideration received from the policyholders administrative and cost of insurance charges in accordance with the provisions of the unit-linked insurance contracts.

After deduction of these charges, the remaining amounts in fund assets are equal to the surrender value of the unit-linked policies, and can be withdrawn anytime.

The investment returns on the insurance investment funds belong to policyholders and the Company does not bear the risk associated with these assets (outside of guarantees offered). Accordingly, investment income earned and expenses incurred by these funds and payments to policyholders are reflected directly in the "Segregated fund assets and Segregated fund liabilities" accounts in the statements of financial position. Such changes have no effect on the Company's results of operations.

The equity of each unit-linked policyholder in the fund is monitored through the designation of outstanding units for each policy. Hence, the equity of each unit-linked insurance contract in the fund is equal to its total number of outstanding units multiplied by the net asset value per unit (NAVPU). The NAVPU is the market value of the fund divided by its total number of outstanding units.

Product Classification

The Company issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes having to pay benefits on the occurrence of an insured event such as death, accident or disability. The Company may also transfer insurance risk on insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Insurance contracts may contain a premium and capital fund rider that entitles the policyholder to receive additional benefits based on the Company's investment performance. These contracts are recorded as financial liabilities under "Premium deposit fund" account in the statements of financial position. Local statutory regulation sets out a limitation on the accumulation of fund deposits and contributions.

Pension Cost

Defined benefit plan

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, 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 (PUC) method.

Defined benefit costs comprise the following:
(a) Service cost;
(b) Net interest on the net defined benefit liability or asset; and
(c) 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.

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 high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

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).

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

Bonus plans
The Company recognizes a liability and an expense for 13th month and mid-year bonus based on a formula that takes into consideration the employee's current monthly salary. The Company recognizes a provision when contractually obligated.

Vacation and sick leave benefits
The employees earn fifteen (15) days each of vacation and sick leave after one (1) year of service with the Company which can be computed upon separation. Computation is based on the employee's monthly basic salary at the time of separation.
In subsequent years, the employees are compensated with fifteen (15) days each of vacation leave and sick leave annually. At each calendar year, unused vacation leave credits are forfeited and unused sick leave credits are computed. The Company recognizes a liability as a result of the unused entitlement of leave credits as at the reporting date.

Income Tax
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute this amount are those that are enacted or substantively enacted as at the reporting date.

Deferred tax
Deferred tax is provided, using the balance sheet 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 tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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

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

Equity
Capital stock consists of common and preferred shares classified as equity. When the Company issues shares in excess of par, the excess is recognized as contributed surplus. Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

Contributed surplus represents the contribution of the stockholders of the Company in addition to the paid-up capital stock in order to comply with the pre-licensing and capital requirements as provided under the Code.

Retained earnings represent accumulated earnings of the Company less dividends declared.

Foreign Currency Transactions and Translation
The functional and presentation currency of the Company is the Philippine Peso. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the Company's profit or loss.

Provisions
Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in statement of comprehensive income net of any reimbursement.

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

The Company makes judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses, and disclosures of contingent assets and liabilities, if any, within the next financial year. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

Judgments

Product classification
The Company has determined that the policies it issues have significant insurance risk and therefore meets the definition of an insurance contract and are accounted for as such.

Classification of financial instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on the initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of the financial instrument, rather than its legal form, governs its classification in the statements of financial position.

In addition, the Company classifies financial assets by evaluating, among other, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination of 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.

Leases prior to January 1, 2019 (PAS 17)
The Company has entered into contracts of lease for its head office and the office spaces of its branches, which it considers as operating lease.

The Company has determined that all the significant risks and rewards of ownership of these properties are retained by the lessor. The contracts of lease are considered as operating leases by the Company since these do not transfer substantially all the risks and rewards incidental to ownership (Note 23).

Leases starting January 1, 2019 (PFRS 16)
Determination of lease term of contracts with renewal and termination options - Company as a lessee

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an enforceable option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an enforceable option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has the option, under some of its leases to lease the assets for additional terms of three years. The Company applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Company has applied the following practical expedients permitted by the standard to leases:

- Leases with a lease term of 12 months or shorter;

  The Company applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not have renewable clause or purchase option.

- Leases for low-value assets

  The Company also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value and are recognized as expense in profit and loss on a straight-line basis over the lease term.

- Leases with variable lease payments

  Variable lease payments of the Company do not contain any component of fixed rent in the clauses of the contract. The Company recognizes the lease payments in profit and loss for these leases that do not meet the ROU assessment and applies the exemption as permitted by the standard when incurred.

Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

The Company's lease liabilities amounted to ₱47.5 million as of December 31, 2019.

<u>Estimates and Assumptions</u>

Life
Estimate of the ultimate liability arising from claims made under insurance contracts
Estimate of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for such claims. The primary sources of uncertainties are the frequency of claims due to contingencies covered and the timing of benefit payments.

Estimation of claims takes into account several factors such as industry average mortality experience, with adjustments to reflect Company's historical experience.

Estimate of future benefit payments and premiums arising from long-term insurance contracts
Estimates of future benefit payments depend on the expectations of future benefit payments for contingencies covered, the major ones being death and endowment benefits. The Company based these estimates on mortality and other contingency tables approved by the Insurance Commission as well as future investment earnings rate of the assets backing up these liabilities, subject to the maximum rate provided under the Insurance Code of the Philippines (Insurance Code). These are also subject to liability adequacy test.

Source of uncertainty in the estimation of future claim payments
Although the Company has taken necessary steps to mitigate the uncertainty in the estimation of future benefit payments and premium receipts, it is still subject to the unpredictability of changes in mortality levels. The Company adopts the standard mortality table in assessing future benefit payments and premium receipts as approved by the Insurance Commission.

The liability under the insurance contracts includes provisions for IBNR claims and provisions for claims in course of settlement as of reporting date. The IBNR provision is based on historical experience and is subject to a high degree of uncertainty.

Reinsurance - assumptions and methods
The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under loans and receivables.

Even though the Company may have reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and, thus, a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent on any reinsurance contract.

Nonlife
Estimate of the ultimate liability arising from claims made under insurance contracts
For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision.

The method of determining such estimates and establishing reserve are continually reviewed and updated. Changes in estimates of claims cost resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period the estimates are made.

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors and claim numbers for each accident year. Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future, for example, one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. But since this is the first year of non-life business of the Company, average market experience is used.

Legal policy reserves
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums as part of Insurance contract liabilities and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims Provision and Incurred But Not Reported (IBNR) Losses
These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period 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 the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR losses. The liability is derecognized when the contract is discharged, cancelled or has expired.

Liability Adequacy Test (LAT)
LAT is performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims. Any inadequacy is immediately charged to profit or loss by establishing a provision for loss arising from the liability adequacy tests.

Impairment of financial assets

(i) *Debt Instruments measured at Fair Value through OCI*

Impairment for financial assets at FVOCI follows the general model (considering PD, LGD, and EAD) in computing for the required allowance based on the increase in credit risk which in turn is dependent on the “staging” of the debt instrument.

In accordance to the "three stage" approach, all newly purchased financial assets shall be classified in Stage 1, except for credit impaired financial assets. It will move from Stage 1 to Stage 2 when there is significant increase in credit risk ("SICR"), and Stage 2 to Stage 3 when there is an objective evidence of impairment.

The carrying values of financial assets at FVOCI amounted to ₱1,596.4 million and ₱1,439.6 million as of December 31, 2019 and 2018, respectively (see Note 8). The allowance for impairment on financial assets at FVOCI amounted to ₱1.3 million and ₱7.5 million as of December 31, 2019 and 2018, respectively (see Note 8).

(ii) *Financial assets at Amortized cost*

For financial assets at amortized cost, specifically for loans to DepEd employees, a risk sensitive model is used, with computed loss rates based on historical data for Stage 1 and Stage 2. For stage 3 accounts, the loss rate is based on the LGD rate as PD is assumed to be 100%.

Financial assets at amortized cost, net of allowance for impairment losses, amounted to ₱395.2 million and ₱152.1 million as of December 31, 2019 and 2018, respectively (see Note 8). The allowance for impairment amounted to ₱8.5 million and ₱10.2 million as of December 31, 2019 and 2018, respectively (see Note 8).

(iii) *Premiums due and uncollected*

No impairment allowance is provided for premiums due and uncollected as the Company has a policy to suspend and lapse the accounts which remain unpaid over 90 days. The lapsed account can still be reinstated provided that unpaid premiums are settled.

(iv) *Cash equivalents*

The calculation of impairment allowance amounting to ₱0.7 million and ₱2.3 million as of December 31, 2019 and 2018 is a product of PD, LGD and EAD.

EUL of property and equipment, intangible assets and right-of-use assets
The Company reviews annually the EUL of property and equipment and intangible assets based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by the changes in these estimates. A reduction in the EUL of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

The related balances follow (Notes 9 and 10):

	2019	2018
Property and equipment - cost	**₱96,257,553**	₱71,273,638
Accumulated depreciation	**63,696,720**	55,898,824
Depreciation and amortization	**7,797,896**	4,084,328

	2019	2018
Intangible assets - cost	**₱31,581,212**	₱30,754,693
Accumulated depreciation	**19,471,750**	17,707,118
Depreciation and amortization	**1,764,632**	5,460,402

	2019
Right-of-use assets - cost	**₱61,112,577**
Accumulated depreciation	**17,581,748**
Depreciation and amortization	**19,892,973**

Impairment of nonfinancial asset
The Company assesses impairment on non-financial assets which pertain to property and equipment, intangible, right-of-use and other assets whenever events or changes in circumstances indicate that the carrying amount of an 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 required assets or the strategy for overall business; and

- Significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. The recoverable amount is estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs.

As of December 31, 2019 and 2018, the carrying value of non-financial assets amounted to ₱88.2 million and ₱28.4 million, respectively (see Notes 9 and 10).

Recognition of deferred tax assets
The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available against which all or part of the tax benefits can be utilized. However, there is no absolute assurance that sufficient taxable income will be generated in the near foreseeable future to allow all or part of the recognized deferred tax assets to be utilized.

As of December 31, 2019 and 2018, deferred tax assets amounted to ₱26.4 million and ₱26.3 million, respectively (see Note 24).

Pension and other retirement benefits
The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

As of December 31, 2019 and 2018, net pension liability amounted to ₱13.7 million and ₱1.6 million, respectively (see Note 22).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases are based on expected future inflation rates for the Philippines.

Further details about the assumptions used are provided in 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 external and internal legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position as of reporting date.

6. Cash and Cash Equivalents

Cash and cash equivalents

This account consists of:

	2019	2018
Cash on hand	**₱142,500**	₱130,000
Cash in banks	**351,913,372**	376,783,689
Cash equivalents	**541,421,100**	569,074,334
	₱893,476,972	945,988,023
Less allowance for impairment	**749,577**	2,250,356
	₱892,727,395	₱943,737,667

Cash in banks and cash equivalents earn annual interest ranging from 0.25% to 3.875% in 2019 and from 0.25% to 5.5% in 2018. Cash equivalents are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates.

Interest income from cash in banks and cash equivalents amounted to ₱30.8 million and ₱19.3 million in 2019 and 2018, respectively (see Note 17). Accrued interest income amounted to ₱0.80 million and ₱1.3 million as of December 31, 2019 and 2018, respectively.

Based on management's assessment, an allowance for impairment has been recognized for the Company's cash equivalents. The rollforward analysis of the impairment allowance follows:

	2019	2018
At January 1	**₱2,250,356**	₱1,909,078
Provision (recovery) - (Note 20)	**(1,500,779)**	341,278
At December 31	**₱749,577**	₱2,250,356

7. Insurance Receivables and Reinsurance Assets

Insurance receivables

This account consists of:

	2019	2018
Premiums due and uncollected	**₱487,417,691**	₱293,467,082
Reinsurance recoverable on paid losses	**83,947,094**	110,310,768
	571,364,785	403,777,850
Less allowance for impairment	**17,434,125**	–
	₱553,930,660	₱403,777,850

Premiums due and uncollected consist of premiums already billed by the Company to its clients, but remain unpaid at the end of reporting period.

Reinsurance recoverable on paid losses pertains to the amount of claims paid in excess of the retention limit of the Company and is recoverable from the reinsurers.

As of December 31, 2019 and 2018, the management assessed that no allowance for impairment is required for premiums due and uncollected since the Company has a policy to suspend and lapse the policies with premiums receivable which remain unpaid for over 90 days.

Reinsurance assets
Reinsurance assets pertain to reinsurance recoverable on unpaid losses. These pertains to the amount of claims incurred in excess of the retention limit of the Company and is recoverable from the reinsurer.

Reinsurance assets amounted to ₱19.6 million and ₱37.2 million as of December 31, 2019 and 2018, respectively.

8. Financial Assets

The Company's financial assets are summarized as follows:

	2019	2018
Financial assets at FVOCI	**₱1,596,364,800**	₱1,439,607,972
Financial assets at FVPL	**264,692,314**	243,601,036
Financial assets at amortized cost	**395,240,606**	152,060,278
	₱2,256,297,720	₱1,835,269,286

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

(a) As of December 31, the financial assets at Fair Value through OCI follow:

	2019	2018
Government debt securities	**₱1,244,538,656**	₱1,247,381,550
Corporate debt securities	**351,826,144**	192,226,422
	₱1,596,364,800	₱1,439,607,972

Significant portion of the investments in government and corporate debt securities are managed by ATRAM Trust Corporation under an investment management agreement (IMA), with no guaranteed rate of return. These investments under IMA amounted to ₱1,287.4 million and ₱1,148.6 million as of December 31, 2019 and 2018, respectively.

An analysis of the cost and market value of financial assets at FVOCI follow:

	2019	2018
Market value	**₱1,596,364,800**	₱1,439,607,972
Amortized cost	**1,588,303,709**	1,498,070,112
Unrealized gains (losses) on financial assets at FVOCI	**8,061,091**	(58,462,140)
Deferred income tax	**(1,006,820)**	2,846,099
Unrealized gains (losses) on financial assets at FVOCI recognized in equity	**₱7,054,271**	(₱55,616,041)

The "Unrealized losses on financial assets at FVOCI" is recognized in the equity section of the statements of financial position while the movements thereof are shown as part of "Other comprehensive income" in the statements of comprehensive income.

The roll forward analysis of unrealized losses on financial assets at FVOCI follow:

	2019	2018
At January 1	**(₱55,616,041)**	(₱4,547,092)
Other comprehensive income:		
Change in fair value of FVOCI - net of tax effect	**62,670,312**	(51,068,949)
At December 31	**₱7,054,271**	(₱55,616,041)

The movements in financial assets at FVOCI for the years ended December 31 follow:

	2019	2018
At January 1	**₱1,439,607,972**	₱1,469,232,528
Additions	**1,931,310,084**	997,681,231
Disposals/maturities/redemptions	**(1,903,489,281)**	(965,076,581)
Change in fair value during the year	**66,523,231**	(51,068,949)
Recovery from (provision for) impairment (Note 20)	**6,217,666**	(962,134)
Amortization of premium (discount)	**56,195,128**	(10,198,123)
	₱1,596,364,800	₱1,439,607,972

Interest income earned from financial assets at FVOCI amounted to ₱76.5 million and ₱65.3 million in 2019 and 2018, respectively (see Note 17). Accrued interest income amounted to ₱13.0 million and ₱10.5 million as of December 31, 2019 and 2018, respectively.

An allowance for impairment has been recognized for financial assets at FVOCI. The rollforward analysis follows:

	2019	2018
At January 1	**₱7,509,694**	₱6,547,560
Provision (recovery) - (Note 20)	**(6,217,666)**	962,134
At December 31	**₱1,292,028**	₱7,509,694

As of December 31, government and corporate debt securities amounting ₱309.0 million in 2019 and ₱291.0 million in 2018 were designated as restricted investments and maintained with the Bureau of Treasury in accordance with the provisions of the Insurance Commission as security for the benefit of the Company's policyholders and creditors. Security fund is maintained in accordance with Chapter V Sections 378 to 385 of the Insurance Code. The amount of such fund is determined by and deposited with the Insurance Commission and its purpose is to pay valid claims against insolvent insurance companies.

(b) As of December 31 the financial assets at FVPL follow:

	2019	2018
Unit investment trust fund	**₱154,090,646**	₱42,962,810
Mutual funds	**97,138,899**	157,378,746
Seed capital on unit-linked investment funds (Note 12)	**9,000,000**	8,000,000
Proprietary shares	**4,370,280**	3,320,280
Listed equity securities	**92,489**	78,953
Government debt securities	**–**	31,860,247
	₱264,692,314	₱243,601,036

A portion of the investments in government debt securities, mutual funds, unit investment trust funds, and the Company's seed capital on its unit-linked investment funds are managed by ATRAM Trust Corporation under an investment management agreement, with no guaranteed rate of return.

The movements in financial assets at FVPL for the years ended December 31 follows:

	2019	2018
At January 1	**₱243,601,036**	₱229,857,400
Additions	**201,725,821**	356,296,458
Disposals	**(186,792,413)**	(320,230,627)
Trading gains (losses)	**6,157,870**	(22,322,195)
At December 31	**₱264,692,314**	₱243,601,036

Breakdown of trading gains (losses) on financial assets at FVPL follows:

	2019	2018
Realized gains (losses)	**(₱5,557,023)**	₱785,963
Unrealized gains (losses)	**11,714,893**	(23,108,158)
	₱6,157,870	(₱22,322,195)

Interest income earned from financial assets at FVPL amounted to ₱0.6 million and ₱1.4 million in 2019 and 2018, respectively (Note 17).

(c) Financial assets at amortized cost as of December 31 follow:

	2019	2018
Salary loans	**₱215,616,859**	₱63,580,698
Receivable from third party administration arrangements	**77,983,885**	24,079,115
Due from policyholders	**23,722,381**	20,011,348
Receivable from unit-linked funds (Note 12)	**20,872,935**	4,882,305
Accounts receivable	**12,372,347**	14,819,311
Policy loans	**12,708,232**	13,349,153
Mortgage loans	**18,101,681**	11,608,975
Other receivables	**22,349,535**	9,901,105
	403,727,855	162,232,010
Less allowance for impairment	**(8,487,249)**	10,171,732
	₱395,240,606	₱152,060,278

Salary loans represent loans to Company's employees, DepEd teachers and private institution employees with annual interest rates ranging from 5.70% to 6.5% and 5.70% to 8.4% in 2019 and 2018, respectively. These loans have terms ranging from six (6) to thirty-six (36) months and are collected through salary deductions. The noncurrent portion of the salary loans amounted to ₱196.5 million and ₱41.2 million as of December 31, 2019 and 2018, respectively. Interest income earned from salary loans amounted to ₱11.7 million and ₱6.3 million in 2019 and 2018, respectively (see Note 17).

The Company has an existing Memorandum of Agreement (MOA) on Automatic Payroll Deduction System with the Department of Education (DepEd) that allows it to engage in lending operations with DepEd teachers and personnel as borrowers. The Company's DepEd Teacher's Salary Loan accreditation for lending has been approved on June 26, 2012 which shall be effective for a period of five (5) years. The MOA with DepEd expired last June 2017 and was renewed monthly until October 2017 only. The new Terms and Conditions of the Automatic Payroll Deduction System (APDS) Accreditation (TCAA) with DepEd was signed and approved in June 2018 with effectivity up to December 31, 2020, renewable every 3 years. The DepEd, however, may anytime revoke this TCAA for cause.

The rollforward analysis of salary loans follow:

	2019	2018
At January 1	**₱63,580,698**	₱50,386,655
Rollout	**255,885,445**	40,311,701
Collections	**(103,849,284)**	(27,117,658)
At December 31	**₱215,616,859**	₱63,580,698

Receivable from third party administration clients represent amounts initially paid by the Company for billings made by medical providers for availments of covered employees under TPA arrangement. This is normally due within fifteen (15) days from date billed to TPA clients.

Receivable from unit-linked funds pertains to amounts payable by fund manager (ATRAM) to the Company coming from the redemption of units of the Company's VUL products.

Accounts receivable consist mostly of receivables from employees, brokers, and SSS.

Policy loans pertain to loans issued to insurance policyholders. These loans are collateralized with the cash surrender value of the policyholders' insurance policy. The annual interest rate on policy loans in 2019 and 2018 is fixed at 10.00%. Interest income earned amounted to ₱1.3 million and ₱2.1 million in 2019 and 2018, respectively (see Note 17). The policyholders may repay the policy loans any time during the effectivity of the policy and if unpaid upon surrender or maturity, the policy loan will be deducted from the surrender or maturity benefits.

Due from policyholders pertains to the excess of the amount paid by the Company over the benefits of the claimant. The Company pays the entire amount incurred by the claimant during hospitalization and bills the claimant for the excess.

Mortgage loans consist of:

	2019	2018
Chattel mortgage (car loans) (Note 25)	**₱17,447,715**	₱10,955,009
Real estate mortgage (housing loans)	**653,966**	653,966
	₱18,101,681	₱11,608,975

Housing and car loans to officers and employees are collectible over a period of five (5) to fifteen (15) years through salary deduction. These loans bear an annual interest ranging from 0% to 8.4% depending on the position of the employee. Interest income earned amounted to ₱0.1 million and ₱0.4 million in 2019 and 2018, respectively (see Note 17). The noncurrent portion of the mortgage loans amounted to ₱12.4 million and ₱7.1 million as of December 31, 2019 and 2018, respectively.

Other receivables consist of advances to officers, employees and agents.

The changes in allowance for impairment on financial assets at amortized cost are as follows:

	Salary loans	Accounts Receivable	Total
At January 1, 2019	**₱9,188,816**	**₱982,916**	**₱10,171,732**
Recovery (Note 20)	**(1,684,483)**	**–**	**(1,684,483)**
At December 31, 2019	**₱7,504,333**	**₱982,916**	**₱8,487,249**

	Salary loans	Accounts Receivable	Total
At January 1, 2018	₱10,160,075	₱1,027,533	₱11,187,608
Recovery (Note 20)	(175,050)	(44,617)	(219,667)
Write-off	(796,209)	–	(796,209)
At December 31, 2018	₱9,188,816	₱982,916	₱10,171,732

9. Property and Equipment and Intangible Assets

The rollforward analyses of property and equipment follow:

	2019				
	Office Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Construction in Progress**	**Transportation Equipment**	**Total**
Cost					
At January 1	**₱51,114,271**	**₱11,148,798**	**₱5,403,713**	**₱3,606,856**	**₱71,273,638**
Additions	**8,911,065**	**16,072,850**	**–**	**–**	**24,983,915**
Reclassification	**–**	**5,403,713**	**(5,403,713)**	**–**	**–**
Retirement	**(4,981,860)**	**(10,166,485)**	**–**	**–**	**(15,148,345)**
At December 31	**55,043,476**	**22,458,876**	**–**	**3,606,856**	**81,109,208**
Accumulated Depreciation					
At January 1	**41,473,102**	**10,899,705**	**–**	**3,526,017**	**55,898,824**
Depreciation/amortization (Note 23)	**6,021,725**	**1,695,332**	**–**	**80,839**	**7,797,896**
Retirement	**(4,981,860)**	**(10,166,485)**	**–**	**–**	**(15,148,345)**
At December 31	**42,512,967**	**2,428,552**	**–**	**3,606,856**	**48,548,375**
Net Book Value	**₱12,530,509**	**₱20,030,324**	**₱–**	**₱–**	**₱32,560,833**

	2018				
	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Transportation Equipment	Total
Cost					
At January 1	₱48,063,897	₱11,089,298	₱–	₱3,606,856	₱62,760,051
Additions	3,050,374	59,500	5,403,713	–	8,513,587
At December 31	51,114,271	11,148,798	5,403,713	3,606,856	71,273,638
Accumulated Depreciation					
At January 1	37,839,775	10,806,778	–	3,167,943	51,814,496
Depreciation/amortization (Note 23)	3,633,327	92,927	–	358,074	4,084,328
At December 31	41,473,102	10,899,705	–	3,526,017	55,898,824
Net Book Value	₱9,641,169	₱249,093	₱5,403,713	₱80,839	₱15,374,814

Fully depreciated assets still in use amounted to ₱21.9 million and ₱33.9 million as of December 31, 2019 and 2018, respectively. There are no temporary idle property and equipment items.

The rollforward analysis of intangible assets follows:

	2019	2018
Cost		
At January 1	**₱30,754,693**	₱29,540,641
Additions	**826,519**	1,214,052
Retirement	**(4,591,559)**	–
At December 31	**26,989,653**	30,754,693
Accumulated Depreciation		
At January 1	**₱17,707,118**	₱12,246,716
Amortization (Note 23)	**1,764,632**	5,460,402
Retirement	**(4,591,559)**	–
At December 31	**14,880,191**	17,707,118
Net Book Value	**₱12,109,462**	₱13,047,575

Fully depreciated assets still in use amounted to ₱21.9 million and ₱33.9 million as of December 31, 2019 and 2018, respectively. There are no temporary idle property and equipment items.

Intangible assets consist of computer software used in the Company's operations.

10. Right-of-Use Assets and Lease Liabilities

The rollforward analysis of right-of-use assets as of December 31, 2019 follow:

Cost	
At January 1 (Note 3)	₱66,531,564
Additions	1,035,691
Contract renewals	2,680,520
Termination	(8,956,464)
Retirement	(178,734)
At December 31	61,112,577
Accumulated Depreciation	
At January 1 (Note 3)	–
Depreciation charge (Note 23)	18,831,763
Depreciation charge – contract renewals (Note 23)	1,061,210
Termination	(2,132,491)
Retirement	(178,734)
At December 31	17,581,748
Net Book Value	₱43,530,829

Right-of-use assets pertain to leasing agreements that the Company entered into for its head office and servicing branches.

- The lease contract with Vita Realty Corporation for the Company's head office was renewed on July 1, 2019 for another 3 years ending on June 30, 2022. This covers penthouse, 2nd and 3rd floors of Morning Star Center (MSC). The rental rate and maintenance charges are subject to an annual escalation of 7.50%. In September 25, 2019, the Company sent a pre-termination notice to the lessor for the lease of the penthouse, vacating the premises effective November 1, 2019.

- In June 2019, the Company entered into a lease contract with Golden Stonehills Properties and Development, Inc. for its new branch office located in Pampanga. The lease is for a period of three (3) years from July 1, 2019 to June 30, 2022.

- In July 2017, the Company entered into a three (3) year lease contract for its branch office located in Lipa City which will expire in June 2020. The contract is renewable upon mutual agreement of the parties.

- In May 2019, the Company renewed the lease contract for its branch office located in Mindoro which expired in February 2019 for two (2) years until 2021.

- In February 2019, the Company renewed the non-cancellable lease contract for its branch office located in Cebu for another three (3) years until January 2022.

Rental deposits amounting to ₱7.4 million and ₱4.1 million as of December 31, 2019 and 2018, respectively are included under the "Other assets" account in the statements of financial position (see Note 11).

The rollforward analysis of lease liabilities as of December 31, 2019 follow:

Lease Liabilities	
At January 1 (Note 3)	₱66,531,564
Additions	3,716,210
Accretion of interest	4,600,371
Termination	(7,223,957)
Payments	(20,081,557)
At December 31	₱47,542,631

Interest expense incurred for the lease liabilities amounted to ₱4.6 million in 2019.

Breakdown of lease liabilities by remaining maturity as of December 31, 2019 follow:

Less than 12 months	₱17,312,797
More than 12 months	30,229,834
Total	₱47,542,631

11. **Other Assets**

This account consists of:

	2019	2018
Creditable withholding taxes	**₱30,384,833**	₱10,148,827
Prepayments	**12,966,179**	5,688,952
Deferred acquisition costs	**9,092,938**	–
Performance bond	**8,493,452**	8,193,422
Rental deposits (Notes 10 and 23)	**7,414,140**	4,123,090
Reserve fund	**581,384**	581,384
Security fund	**221,082**	221,082
Miscellaneous	**1,455,269**	844,259
	₱70,609,277	₱29,801,016

Creditable withholding taxes consists of the amount withheld arising from premium collections to be claimed as a deduction from income tax liability. These are available for offset against income tax due.

Deferred acquisition costs pertain to commissions and other direct acquisition costs incurred within the year relative to the Company's nonlife insurance business and deferred based on the inception and expiry of the related nonlife insurance contracts.

Performance bond consists of amounts paid by the Company to hospital network providers in compliance with certain group insurance policy contracts. These bonds will be recovered upon termination of the policy contracts and after all claims and benefits accruing to the contracts have been settled.

Prepayments include advance payments made by the Company relative to documentary stamps as well as for computer maintenance contracts.

Reserve fund consists of contingency funds which are maintained to defray claims of the insurance pools business of the Company.

Security fund is maintained in accordance with Chapter V Sections 378 to 385 of the Insurance Code. The amount of such fund is determined by and deposited with the Insurance Commission and its purpose is to pay valid claims against insolvent insurance companies.

Miscellaneous assets mainly include advance payments to suppliers for ongoing projects.

12. **Insurance Contract Liabilities**

The breakdown of this account follows:

	2019	2018
Life insurance contracts	**₱1,240,583,283**	₱1,025,250,194
Non-life insurance contracts	**105,816,312**	49,340,817
	₱1,346,399,595	₱1,074,591,011

Life Insurance Liabilities
Life insurance contract liabilities may be analyzed as follows:

	2019	2018
Group insurance premium reserves	**₱877,588,375**	₱661,812,107
Legal policy reserves	**102,011,709**	85,400,150
Claims and benefits payable	**256,417,565**	275,277,014
Policyholders' dividends	**4,565,634**	2,760,923
	₱1,240,583,283	₱1,025,250,194

The movements in group insurance premium reserves for 2019 and 2018 may be analyzed as follows:

	2019	2018
At January 1	**₱661,812,107**	₱365,416,353
New policies issued during the year (Note 16)	**3,497,789,223**	3,069,031,479
Premiums earned during the year	**(3,282,012,955)**	(2,772,635,725)
At December 31	**₱877,588,375**	₱661,812,107

The movements in legal policy reserves for ordinary life policies during the year follow:

	2019	2018
At January 1	**₱85,400,150**	₱94,736,094
Net change in legal policy reserves:		
New business, reinstatement and change in policy year	**12,349,135**	7,067,803
Released by death and other terminations and supplementary contracts	**(5,152,487)**	(7,379,038)
Due to change in discount rates	**9,414,911**	(9,024,709)
	₱16,611,559	(₱9,335,944)
At December 31	**₱102,011,709**	₱85,400,150

The movements in claims and benefits payable follow:

	2019	2018
At January 1	**₱275,277,014**	₱294,825,963
Arising during the year (Note 18)	**2,010,464,329**	1,693,116,610
Increase in IBNR (Note 18)	**12,523,585**	21,106,515
Paid during the year	**(2,041,847,363)**	(1,733,772,074)
At December 31	**₱256,417,565**	₱275,277,014

Policyholders' dividends may be broken down as follows:

	2019	2018
Dividends payable on participating policies	**₱2,820,217**	₱2,760,923
Dividends payable on variable unit-linked policies	**1,745,417**	–
	₱4,565,634	₱2,760,923

The movements in policyholders' dividends for participating policies in 2019 and 2018 follow:

	2019	2018
At January 1	**₱2,760,923**	₱3,079,315
Policyholder's dividends (Note 18)	**650,332**	705,648
Payments during the year	**(591,038)**	(1,024,040)
At December 31	**₱2,820,217**	₱2,760,923

Interest expense on policyholders' dividends for participating policies amounted to ₱472,219 in 2019 and nil in 2018.

The movements in policyholders' dividends for variable unit-linked policies in 2019 follow:

	2019
At January 1	**₱–**
Policyholder's dividends	**22,178,645**
Payments during the year	**(20,433,228)**
At December 31	**₱1,745,417**

Non-Life Insurance Liabilities
Non-life insurance liabilities may be analyzed as follows:

	2019	2018
Provision for claims reported and loss adjustment expenses	**₱38,198,663**	₱10,389,982
Provision for IBNR	**5,046,958**	3,513,909
Total claims reported and IBNR	**43,245,621**	13,903,891
Reserve for unearned premiums	**62,570,691**	35,436,926
Total Insurance Contract Liabilities	**₱105,816,312**	₱49,340,817

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

	2019	2018
At January 1	**₱13,903,891**	₱8,202,800
Claims incurred (Note 18)	**53,170,393**	17,547,505
Increase in IBNR (Note 18)	**1,533,049**	3,513,909
Claims paid	**(25,361,712)**	(15,360,323)
At December 31	**₱43,245,621**	₱13,903,891

Reserve for unearned premiums for 2019 and 2018 may be analyzed as follows:

	2019	2018
At January 1	**₱35,436,926**	₱12,321,090
New policies written during the year (Note 16)	**104,387,256**	70,589,361
Premiums earned during the year	**(77,253,491)**	(47,473,525)
At December 31	**₱62,570,691**	₱35,436,926

Segregated Fund Assets / Segregated Fund Liabilities

In 2016, the Company started commercial issuance of unit-linked insurance contracts where the payments to policyholders are linked to investment funds set up by the Company. As of December 31, 2019, the Company has six (6) PHP and three (3) USD insurance investment funds (IIFs), namely: Philippine Balanced Fund (PHP), Equity Opportunity Fund (PHP), Fixed Income Fund (PHP), Global Technology Feeder Fund (PHP), Asia Equity Opportunity Feeder Fund (PHP), Global Total Return Bond Feeder Fund – Peso Denominated (PHP), Global Equity Opportunity Feeder Fund (USD), Global Allocation Feeder Fund (USD), Global Total Return Bond Feeder Fund (USD).

As of December 31, 2019 and 2018, the details of this account are as follows:

	2019	2018
Peso Funds		
Asia equity opportunity feeder fund	**₱236,795,000**	₱26,840,017
Global total return bond feeder fund - PHP	**68,451,060**	–
Equity opportunity fund	**71,210,628**	54,552,826
Philippine balanced fund	**60,293,150**	60,283,191
Fixed income fund	**5,036,444**	5,077,726
Global technology feeder fund	**3,534,169**	73,628
	445,320,451	146,827,388
Dollar Funds		
Global total return bond feeder fund - USD	**753,554,831**	1,769,336
Global equity opportunity feeder fund	**8,722,185**	8,391,423
Global allocation feeder fund	**7,211,142**	7,010,735
	769,488,158	17,171,494
	₱1,214,808,609	₱163,998,882

The breakdown of net assets in segregated funds as of December 31, 2019 follow:

	Peso Funds						
	Asia Equity Opportunity Feeder Fund	Global Total Return Bond Feeder Fund (PHP)	Equity Opportunity Fund	Philippine Balanced Fund	Fixed Income Fund	Global Technology Feeder Fund	Total
Cash and cash equivalents	₱3,590,747	₱1,000,539	₱1,224,034	₱992,772	₱1,050,463	₱1,033,163	₱8,891,718
Mutual funds	–	–	85,047,462	58,534,923	–	–	143,582,385
Accum. market gains/(losses) – mutual Funds	–	–	(7,665,429)	(3,275,549)	–	–	(10,940,978)
Unit investment trust fund (UITF)	239,192,414	67,769,188	–	–	4,750,779	3,032,627	314,745,008
Accum. market gains/(losses) – UITF	1,639,491	598,209	–	–	575,586	552,981	3,366,267
Accounts receivable	-	296,836	–	8,839,518	–	–	9,136,354
Accrued trust fee payable	(2,869,201)	(31,527)	(284,849)	(84,067)	(8,043)	(5,475)	(3,283,162)
Net assets	241,553,451	69,633,245	78,321,218	65,007,597	6,368,785	4,613,296	465,497,592
Less: Seed capital (Note 8)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	6,000,000
Amounts payable on redemption of units (Note 8)	3,758,451	182,185	6,110,590	3,714,447	332,341	79,127	14,177,141
Segregated fund liabilities	₱236,795,000	₱68,451,060	₱71,210,628	₱60,293,150	₱5,036,444	₱3,534,169	₱445,320,451

	Dollar Funds			
	Global Total Return Bond Feeder Fund - USD	**Global Equity Opportunity Feeder Fund**	**Global Allocation Feeder Fund**	**Total**
Cash and cash equivalents	**₱15,451,879**	**₱1,065,398**	**₱1,065,398**	**₱17,582,675**
Unit investment trust fund (UITF)	**801,486,819**	**8,629,030**	**7,196,099**	**817,311,948**
Accum. market gains/(losses) – UITF	**(29,324,774)**	**784,680**	**562,820**	**(27,977,274)**
Accum. FX gains/(losses) – UITF	**(14,546,448)**	**(334,173)**	**(299,451)**	**(15,180,072)**
Accounts receivable	**3,781,575**	**–**	**–**	**3,781,575**
Accrued trust fee payable	**(16,311,774)**	**(12,608)**	**(10,518)**	**(16,334,900)**
Net assets	**760,537,277**	**10,132,327**	**8,514,348**	**779,183,952**
Less: Seed capital (Note 8)	**1,000,000**	**1,000,000**	**1,000,000**	**3,000,000**
Amounts payable on redemption of units (Note 8)	**5,982,446**	**410,142**	**303,206**	**6,695,794**
Segregated fund liabilities	**₱753,554,831**	**₱8,722,185**	**₱7,211,142**	**₱769,488,158**

The breakdown of net assets in segregated funds as of December 31, 2018 follow:

	Peso Fund					
	Philippine Balanced Fund	Equity Opportunity Fund	Fixed Income Fund	Global Technology Feeder Fund	Asia Equity Opportunity Feeder Fund	Total
Cash and cash equivalents	₱956,360	₱998,186	₱1,011,737	₱1,007,164	₱1,000,898	₱4,974,345
Mutual funds	66,537,300	60,198,914	–	–	–	126,736,214
Accum. market gains/(losses) – mutual Funds	(4,050,059)	(3,403,275)	–	–	–	(7,453,334)
Unit investment trust fund (UITF)	–	–	5,278,058	74,888	27,172,101	32,525,047
Accum. market gains/(losses) – UITF	–	–	(14,020)	(3,562)	(243,149)	(260,731)
Accrued trust fee payable	(79,190)	(66,773)	(7,430)	(1,052)	(12,999)	(167,444)
Net assets	63,364,411	57,727,052	6,268,345	1,077,438	27,916,851	156,354,097
Less: Seed capital (Note 8)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	5,000,000
Amounts payable on redemption of units (Note 8)	2,081,220	2,174,226	190,619	3,810	76,834	4,526,709
Segregated fund liabilities	₱60,283,191	₱54,552,826	₱5,077,726	₱73,628	₱26,840,017	₱146,827,388

	Dollar Fund			
	Global Equity Opportunity Feeder Fund - USD	Global Allocation Feeder Fund	Global Total Return Bond Feeder Fund	Total
Cash and cash equivalents	₱1,020,155	₱1,020,155	₱1,020,155	₱3,060,465
Unit investment trust fund (UITF)	9,661,489	7,734,680	1,769,268	19,165,437
Accum. market gains/(losses) – UITF	(1,063,232)	(557,056)	28,012	(1,592,276)
Accum. FX gains/(losses) – UITF	(17,370)	(37,020)	(25,740)	(80,130)
Accrued trust fee payable	(13,021)	(9,922)	(3,463)	(26,406)
Net assets	9,588,021	8,150,837	2,788,232	20,527,090
Less: Seed capital (Note 8)	1,000,000	1,000,000	1,000,000	3,000,000
Amounts payable on redemption of units (Note 8)	196,598	140,102	18,896	355,596
Segregated fund liabilities	₱8,391,423	₱7,010,735	₱1,769,336	₱17,171,494

Amounts payable by fund manager (ATRAM) to the Company on redemption of units are presented as “Receivable from unit-linked funds” as part of financial assets at amortized cost (Note 8). The seed capital is presented as part of financial assets at FVPL (Note 8).

The rollforward analyses of net assets in segregated funds as of December 31, 2019 and 2018 follow:

	2019					
	At January 1	Subscriptions	Redemptions/ Surrenders/ Withdrawals	Change in fair value	Charges and Fees	At December 31
Peso Funds						
Asia equity opportunity feeder fund	**₱26,840,017**	**₱214,278,325**	**(₱1,287,439)**	**₱645,713**	**(₱3,681,616)**	**₱236,795,000**
Global total return bond feeder fund - PHP	**–**	**68,099,937**	**–**	**533,308**	**(182,185)**	**68,451,060**
Equity opportunity fund	**54,552,826**	**41,348,385**	**(14,478,131)**	**(6,276,088)**	**(3,936,364)**	**71,210,628**
Philippine balanced fund	**60,283,191**	**2,953,193**	**(137,393)**	**(1,172,614)**	**(1,633,227)**	**60,293,150**
Fixed income fund	**5,077,726**	**137,500**	**(612,108)**	**575,048**	**(141,722)**	**5,036,444**
Global technology feeder fund	**73,628**	**3,005,294**	**-**	**530,563**	**(75,316)**	**3,534,169**
	146,827,388	**329,822,634**	**(16,515,071)**	**(5,164,070)**	**(9,650,430)**	**445,320,451**
Dollar Funds						
Global total return bond feeder fund - USD	**1,769,336**	**779,458,085**	**(1,223,211)**	**(20,485,830)**	**(5,963,549)**	**753,554,831**
Global equity opportunity feeder fund	**8,391,423**	**–**	**–**	**544,306**	**(213,544)**	**8,722,185**
Global allocation feeder fund	**7,010,735**	**–**	**(706,118)**	**1,069,629**	**(163,104)**	**7,211,142**
	17,171,494	**779,458,085**	**(1,929,329)**	**(18,871,895)**	**(6,340,197)**	**769,488,158**
	₱163,998,882	**₱1,109,280,719**	**(₱18,444,400)**	**(₱24,035,965)**	**(₱15,990,627)**	**₱1,214,808,609**

	2018					
	At January 1	Subscriptions	Redemptions/ Surrenders/ Withdrawals	Change in fair value	Charge s and Fees	At December 31
Peso Funds						
Philippine balanced fund	₱60,144,362	₱7,822,905	(₱2,026,536)	(₱4,304,799)	(₱1,352,741)	₱60,283,191
Equity opportunity fund	25,708,355	36,406,324	(135,456)	(5,659,823)	(1,766,574)	54,552,826
Fixed income fund	3,066,411	2,278,825	(180,000)	14,118	(101,628)	5,077,726
Global technology feeder fund	–	81,000	–	(3,562)	(3,810)	73,628
Asia equity opportunity feeder fund	–	27,160,000	–	(243,149)	(76,834)	26,840,017
	88,919,128	73,749,054	(2,341,992)	(10,197,215)	(3,301,587)	146,827,388
Dollar Funds						
Global equity opportunity feeder fund	–	9,651,252	–	(1,063,231)	(196,598)	8,391,423
Global allocation feeder fund	–	7,707,893	–	(557,056)	(140,102)	7,010,735
Global total return bond feeder fund	–	1,760,220	–	28,012	(18,896)	1,769,336
	–	19,119,365	–	(1,592,275)	(355,596)	17,171,494
	₱88,919,128	₱92,868,419	(₱2,341,992)	(₱11,789,490)	(₱3,657,183)	₱163,998,882

Sensitivities

Life Insurance Contracts

The analysis below is performed for a reasonable possible movement in key assumptions, related to mortality and discount rate, with all other assumptions held constant, on the statement of comprehensive income and statement of changes in equity. 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.

The assumptions that have the greatest effect on the 2019 and 2018 statements of financial position, statements of comprehensive income and statements of changes in equity are listed below:

Mortality

	Change in Assumptions	2019 Increase/ (Decrease) in Net Liabilities	Increase/ (Decrease) in Profit Before Tax	Increase/ (Decrease) in Equity
Mortality	**10.00%**	**₱2,001,705**	**(₱2,001,705)**	**(₱1,401,193)**
	-10.00%	**(2,023,233)**	**2,023,233**	**1,416,263**
Discount rate	**-1.00%**	**10,773,081**	**(10,773,081)**	**(7,541,156)**
Lapse	**10.00%**	**(302,270)**	**302,270**	**211,589**
	-10.00%	**309,224**	**(309,224)**	**(216,457)**
Expense	**10.00%**	**1,548,864**	**(1,548,864)**	**(1,084,205)**
	-10.00%	**(1,528,750)**	**1,528,750**	**1,070,125**

	Change in Assumptions	2018 Increase/ (Decrease) in Net Liabilities	Increase/ (Decrease) in Profit Before Tax	Increase/ (Decrease) in Equity
Mortality	10.00%	₱1,317,389	(₱1,317,389)	(₱922,172)
	-10.00%	(1,297,290)	1,297,290	908,103
Discount rate	-1.00%	8,712,601	(8,712,601)	(6,098,821)
Lapse	10.00%	(283,213)	283,213	283,213
	-10.00%	293,020	(293,020)	(293,020)
Expense	10.00%	1,287,377	(1,287,377)	(1,287,377)
	-10.00%	(1,255,392)	1,255,392	(1,255,392)

MfAD

2019	MfAD	2019 Increase/ (Decrease) in Net Liabilities (from Unpadded Reserves)	Increase/ (Decrease) in Profit Before Tax	Increase/ (Decrease) in Equity
Lapse	**-50.00%**	**₱2,733,879**	**(₱2,733,879)**	**(₱1,913,715)**
Mortality	**10.00%**	**1,665,366**	**(1,665,366)**	**(1,165,756)**
Interest	**-10.00%**	**3,829,160**	**(3,829,160)**	**(2,680,412)**
Expense	**50.00%**	**4,198,317**	**(4,198,317)**	**(2,938,822)**
Total MfAD		**₱12,426,722**	**(₱12,426,722)**	**(₱8,698,705)**

2018	MfAD	2018 Increase/ (Decrease) in Net Liabilities (from Unpadded Reserves)	Increase/ (Decrease) in Profit Before Tax	Increase/ (Decrease) in Equity
Lapse	-50.00%	₱2,537,375	(₱2,537,375)	(₱1,776,163)
Mortality	10.00%	1,052,160	(1,052,160)	(736,512)
Interest	-10.00%	3,279,649	(3,279,649)	(2,295,754)
Expense	50.00%	3,068,065	(3,068,065)	(2,147,646)
Total MfAD		₱9,937,250	(₱9,937,250)	(₱6,956,074)

13. Accounts Payable and Other Liabilities

This account consists of:

	2019	2018
Accounts payable	**₱191,355,152**	₱179,696,768
Commissions payable	**98,677,263**	59,209,535
Accrued expenses	**44,531,766**	84,752,771
Client deposits	**33,783,367**	36,854,091
Due to policyholders	**25,098,525**	21,240,229
Life insurance deposits	**20,839,449**	20,906,362
Taxes payable	**30,703,223**	20,143,342
Premium deposit fund	**2,272,858**	1,978,167
Miscellaneous	**7,675,543**	3,899,316
	₱454,937,146	₱428,680,581

Accounts payable represent billings for medical fees, dental fees, annual physical examination, and third-party administration which are payable on demand. This account also includes unreleased and outstanding checks.

Commissions payable refer to accrual for obligations to brokers, referrers and agents arising from commissions, overrides and service fees.

Accrued expenses include accruals for employee bonuses which are payable the following year, accruals for other employee benefits, professional and legal fees and utilities.

Client deposits pertain to unidentified bank credits as of the reporting date and are subject for clearing the following period.

Due to policyholders represent the PhilHealth benefits due to insured members who were hospitalized or who availed of laboratory procedures from PhilHealth accredited hospitals or clinics. PhilHealth issues the Benefit Payment Notice (BPN) direct to the insured to claim the benefit. The Company will then require the submission of this BPN as a supporting document prior to paying the related claims on due to policyholders.

Life insurance deposits represent deposits paid by policyholders in advance which are applied to premiums or other policyholder obligations when these fall due.

Taxes payable include withholding tax and premium tax payable which are remitted within one month subsequent to reporting date.

Premium deposit fund pertains to funds held for policyholders with annual interest ranging from 4.00% to 6.00%. Premium deposit fund amounted to ₱2.3 million and ₱2.0 million as of December 31, 2019 and 2018, respectively. Interest expense charged against income amounted to ₱69,300 in 2019 and nil in 2018.

Bank loans payable pertain to bank auto loans relative to car plan benefits given by the Company to entitled employees. The bank loans are secured by the vehicles and bear interest at an annual rate of 9.31%.

	2019	2018
Interest expense incurred for bank loans	**₱–**	₱50,639

As of December 31, 2018, the bank loans payable balance has been paid in full.

Miscellaneous includes unearned interest from policy loans and due to Insurope, a multinational pooling facilitator who administers the Company's group life policy pooling arrangements.

14. **Insurance Payables**

Insurance payables pertain to unpaid reinsurance premiums of the Company to another insurer. As of December 31, 2019, and 2018, insurance payables amounted to ₱109.7 million and ₱119.5 million, respectively.

15. **Equity**

Capital stock
Details of the Company's capital stock follows:

	Shares		**Amount**	
Common	**2019**	2018	**2019**	2018
Authorized (₱10.00 - par value)	124,499,404	124,499,404	**₱1,244,994,040**	₱1,244,994,040
Increase in authorized capital stock	**–**	–	**–**	–
	124,499,404	124,499,404	**₱1,244,994,040**	₱1,244,994,040
Issued and outstanding:				
Balance at the beginning and end of the year	116,172,083	116,172,083	**₱1,161,720,830**	₱1,161,720,830

	Shares		**Amount**	
Preferred	**2019**	2018	**2019**	2018
Authorized (₱0.10 - par value)	**50,059,600**	50,059,600	**₱5,005,960**	₱5,005,960
Issued and outstanding:				
Balance at the beginning and ending of the year	**50,059,600**	50,059,600	**₱5,005,960**	₱5,005,960

The preferred shares have the following features:

a) Entitled to receive cash dividends at six percent (6.00%) per annum;
b) Voting rights;
c) Convertible at any time into common shares at the sole option of the Company;
d) Redeemable at any time at the sole option of the Company;
e) Priority to receive the guaranteed dividends, including dividends in arrears, over the common stockholders;
f) Not entitled to any participation or share in the retained earnings remaining after all cumulative dividends thereon have been paid; and

g) In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of the Company, holders of preferred shares shall enjoy preferences in the payment, in full or pro-rata basis as the assets of the Corporation will permit, of the value of their shares plus all unpaid cumulative dividends, before any assets of the Company shall be paid or distributed to holders of common shares.

h) Accrued payable for preferred share dividends in arrears amounted to ₱0.3 million and ₱0.9 million as of December 31, 2019 and 2018, respectively.

Contributed surplus
Contributed surplus amounted to ₱39.8 million as of December 31, 2019 and 2018. This represents original contributions of the stockholders as provided under the Amended Insurance Code.

Retained Earnings
This represents the accumulated earnings of the Company reduced by any losses the Company may incur during a certain accounting period or by dividend declarations.

Under Section 29 of the National Internal Revenue Code of 1997, the Improperly Accumulated Earnings Tax should not apply to Insurance companies.

16. Net Insurance Premiums

Life and Non-life Insurance Contracts
Gross premiums on insurance contracts and reinsurers' share of gross premiums on insurance contract consists of the following:

	2019	2018
Life insurance contract premiums:		
Group accident and health insurance	**₱2,935,107,893**	₱2,826,288,312
Group life insurance	**323,407,008**	300,450,948
Change in provision for unearned premiums	**(215,776,268)**	(296,395,754)
Gross premiums earned on group life insurance contracts	**3,042,738,633**	2,830,343,506
Ordinary life insurance	**19,683,644**	19,351,246
Unit-linked	**1,205,573,203**	109,599,912
Gross premiums earned on individual life insurance contracts	**1,225,256,847**	128,951,158
Total life insurance contract premiums earned	**4,267,995,480**	2,959,294,664
Reinsurers' share on life insurance contracts:		
Group life insurance	**5,801,473**	(57,707,781)
Ordinary life insurance	**(2,459,609)**	(514,188)
Total reinsurers' share on gross premiums earned on life insurance contracts	**3,341,864**	(58,221,969)
Net premiums earned on life insurance contracts	**4,271,337,344**	2,901,072,695
Non-life insurance contracts premiums:		
Motor	**66,281,984**	33,137,346
Fire	**37,125,011**	37,442,646
Travel insurance	**621,383**	9,369
Personal accident	**358,878**	–
Gross premiums written on nonlife insurance contracts	**104,387,256**	70,589,361
Change in unearned premium reserves	**(27,133,765)**	(23,115,836)
Gross earned premiums on nonlife insurance contracts	**77,253,491**	47,473,525
Reinsurers' share on gross premiums written on non-life insurance contracts	**(20,766,204)**	(7,461,386)
Net premiums earned on non-life insurance contracts	**56,487,287**	40,012,139
Net insurance premiums earned	**₱4,327,824,631**	₱2,941,084,834

17. **Interest and Other Income**

Interest income consists of interest arising from:

	2019	2018
Financial assets at FVOCI (Note 8)	**₱76,554,299**	₱65,299,567
Cash and cash equivalents (Note 6)	**30,777,551**	19,252,815
Financial assets at amortized cost (Note 8)		
Salary loans	**11,687,585**	6,286,105
Policy loans	**1,320,511**	2,064,004
Mortgage loans	**107,032**	379,639
Financial assets at FVPL (Note 8)	**626,764**	1,415,097
	₱121,073,742	₱94,697,227

Service fees consist of income from:

	2019	2018
Fees from variable life insurance	**₱60,852,098**	₱19,904,433
Network fees	**13,132,394**	11,843,032
	₱73,984,492	₱31,747,465

Fees from variable life insurance pertain to charges to the policyholders holding investments in variable unit-linked products for fund management, as well as policy issue fees.

Network fees are membership fees paid by the policyholders for the use of accredited hospitals, clinics and doctors' network for a no cash-out arrangement in case of in-patient and out-patient availments. These membership fees cover the insured members with health cards issued by the Company.

Third party administration fees pertain to fees paid by third parties to the Company for handling medical and health expenses of the said third parties which amounted to ₱25.9 million and ₱23.1 million in 2019 and 2018, respectively.

Other income consists of:

	2019	2018
Processing and handling fees	**₱18,631,102**	₱12,894,249
Dividend income	**389,138**	769,956
Gain on termination of ROU assets (Note 10)	**563,699**	–
Gain on foreign currency transactions	**27,275**	–
	₱19,611,214	₱13,664,205

Processing and handling fees pertain to non-finance charges to cover cost of processing salary loans to DepEd teachers and private institution employees and delivery charge for Non-life Policies printed and delivered in hard copy.

18. Net Benefits and Claims Incurred on Insurance Contracts

This account consists of:

	2019	2018
Life	**₱2,067,592,678**	₱1,757,047,527
Non-life	**54,703,442**	21,061,414
	₱2,122,296,120	₱1,778,108,941

Life Insurance Contracts
Net insurance contract benefits and claims incurred follow:

	2019	2018
Claims (Note 12)	**₱2,022,987,914**	₱1,714,223,125
Surrenders	**42,790,123**	41,896,285
Maturities	**1,164,309**	222,469
Policyholders' dividends and interest thereon (Note 12)	**650,332**	705,648
	₱2,067,592,678	₱1,757,047,527

Increase in segregated funds pertain to the investment portion of the client's paid premiums for the Company's variable life insurance products.

Non-Life Insurance Contracts
Net insurance contract benefits and claims incurred follow:

	2019	2018
Insurance contract benefits and claims paid		
Motor Car Insurance Claims	**₱36,703,686**	₱19,431,321
Fire Insurance Claims	**17,656,255**	1,629,000
Travel Insurance Claims	**135,327**	1,093
Non-life – Personal Accidents Claims	**208,174**	–
Net claims incurred	**₱54,703,442**	₱21,061,414

Transfer to segregated funds pertain to the investment portion of the client's paid premiums for the Company's variable life insurance products.

19. Expenses for the Acquisition of Insurance Contracts

This account consists of:

	2019	2018
Commissions	**₱270,698,199**	₱267,149,348
Salaries, wages and employees' benefits (Notes 21 and 25)	**122,244,517**	133,154,927
Service fees	**147,316,631**	101,335,776
Insurance taxes	**63,898,727**	59,037,742
Others	**6,295,059**	6,725,409
	₱610,453,133	₱567,403,202

Commissions represent amounts that are given to agents and brokers. This account includes overriding expenses that are in excess of 10.00% of commissions.

Salaries, wages and employees' benefits pertain to personnel costs of the departments directly involved in the marketing, selling and processing the Company's insurance products.

Service fees represent amounts paid to intermediaries of group policyholders for collecting the premiums from the assured.

Insurance taxes include documentary stamp tax and premium tax.

Others include underwriting expenses, medical fees, inspection fees and other direct costs.

20. General and Administrative Expenses

This account consists of:

	2019	2018
Salaries, wages and employees benefits (Notes 21 and 25)	**₱126,266,576**	₱93,449,106
Management and professional fees (Note 25)	**90,398,888**	90,678,933
Occupancy (Note 23)	**62,180,934**	55,720,488
Taxes and licenses	**31,405,665**	17,382,467
Impairment losses on insurance receivables, net of recoveries (Note 7)	**17,434,125**	–
Office supplies	**14,847,615**	11,286,919
Postage and communication	**9,093,170**	10,075,989
Transportation and travel	**7,314,019**	5,333,828
Provision for probable losses	**-**	1,052,003
Representation and entertainment	**3,978,484**	4,110,351
Insurance	**399,552**	280,917
Recovery from (provision for) impairment of financial assets (Notes 6 and 8)	**(9,402,928)**	1,083,744
Others	**35,598,584**	16,560,427
	₱389,514,684	₱307,015,172

Management and professional fees pertain to expenses incurred for management and other professional services received by the Company such as consulting fee, IMA fees, audit fees, directors' fees, legal fees, temporary staff expenses and miscellaneous services.

Taxes and licenses consist of licenses and permits fees, licenses, LGU Taxes, fringe benefit tax, and input VAT.

Others consists mainly of membership dues, prizes and awards, trainings and seminars and bank charges.

21. Salaries, Wages and Employees' Benefits

This account consists of:

	2019	2018
Salaries and wages and other benefits	**₱236,248,755**	₱210,699,940
Pension expense (Note 22)	**5,205,968**	10,606,527
SSS, Medicare and PAG-IBIG contributions	**7,056,370**	5,297,566
	₱248,511,093	₱226,604,033

Salaries, wages and employees' benefits are charged as follows:

	2019	2018
Expenses for the acquisition of insurance contracts (Note 19)	**₱122,244,517**	₱133,154,927
General and administrative expenses (Note 20)	**126,266,576**	93,449,106
	₱248,511,093	₱226,604,033

22. Pension Plan

The Company has a funded, non-contributory defined benefit plan (the Plan) providing death, disability and retirement benefits for all of its employees. Under the Plan, the normal retirement age is sixty (60) and the employee should have completed at least ten (10) years of service. Normal retirement benefit consists of a lump-sum benefit equivalent to 100.00% of the employee's final monthly pay for every year of service.

The most recent actuarial valuation was carried out for the retirement plan of the Company as of December 31, 2019.

Based on the actuarial valuation as of December 31, 2019 and 2018 computed using the Projected Unit Credit (PUC) method, the Company's pension liabilities and expenses are summarized as follows:

	2019	2018
Net pension liability	**₱13,666,585**	₱1,637,771
Pension expense (Note 21)	**5,205,968**	10,606,527

The amounts recognized in the statements of comprehensive income are as follow:

	2019	2018
Current service cost	**₱5,085,592**	₱10,089,988
Net interest cost	**120,376**	516,539
Pension expense	**₱5,205,968**	₱10,606,527

The amounts recognized in the statements of financial position are as follows:

	2019	2018
Present value of defined benefit obligation	**₱93,826,473**	₱100,904,124
Fair value of plan assets	**(80,159,888)**	(99,266,353)
Net pension liability	**₱13,666,585**	₱1,637,771

Changes in the present value of the defined benefit obligation are as follows:

	2019	2018
At January 1	**₱100,904,124**	₱143,052,112
Current service cost	**5,085,592**	10,089,988
Interest cost on benefit obligation	**7,416,453**	7,710,509
Benefits paid from retirement fund	**(29,099,854)**	(47,883,082)
Actuarial losses (gains):		
Experience adjustments	**(108,972)**	(676,245)
Changes in demographic assumptions	–	(4,724,387)
Changes in financial assumptions	**9,629,130**	(6,664,771)
At December 31	**₱93,826,473**	₱100,904,124

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

	2019	2018
At January 1	**₱99,266,353**	₱133,468,823
Contributions	**6,843,739**	10,020,749
Expected return on plan assets	**7,296,077**	7,193,970
Benefits paid	**(29,099,854)**	(47,883,082)
Remeasurement losses	**(4,146,427)**	(3,534,107)
At December 31	**₱80,159,888**	₱99,266,353

The movements in the net pension liability recognized in the statements of financial position are as follows:

	2019	2018
At January 1	**₱1,637,771**	₱9,583,289
Pension expense	**5,205,968**	10,606,527
Contributions	**(6,843,739)**	(10,020,749)
Amount to be recognized in OCI	**13,666,585**	(8,531,296)
At December 31	**₱13,666,585**	₱1,637,771

Remeasurement losses (gains) recognized in OCI:

	2019	2018
Remeasurement losses on plan assets	**₱4,146,427**	₱3,534,107
Actuarial losses (gains) from benefit obligation	**9,520,158**	(12,065,403)
	13,666,585	(8,531,296)
Deferred tax on remeasurement on plan assets (Note 24)	**(4,099,976)**	2,559,389
	₱9,566,609	(₱5,971,907)

Movement of cumulative remeasurement effect recognized in OCI:

	2019	2018
At January 1	**(₱6,053,863)**	(₱81,956)
Remeasurement loss (gain) on plan assets	**4,146,427**	3,534,107
Actuarial losses (gains) from benefit obligation	**9,520,158**	(12,065,403)
At December 31	**7,612,722**	(8,613,252)
Deferred tax asset (liability)	**(4,099,976)**	2,559,389
Actuarial gains on pension liability	**₱3,512,746**	(₱6,053,863)

Plan assets consist of:

	2019		2018	
	Amount	**%**	Amount	%
Cash and cash equivalents	**₱653,719**	**6.15%**	₱725,404	0.73%
Government debt securities	**17,738,016**	**21.26%**	37,938,479	38.22%
Corporate debt securities	**3,435,855**	**4.23%**	19,548,627	19.69%
Equity securities	**11,899,237**	**15.65%**	8,440,249	8.50%
Mutual Funds/UITFs	**37,048,691**	**39.87%**	70,598,865	71.12%
Loans and receivables	**12,035,719**	**12.97%**	10,401,186	10.48%
Accounts payable	**(2,651,349)**	**(0.13%)**	(48,386,457)	(48.74%)
	₱80,159,888	**100.00%**	₱99,266,353	100.00%

The expected return on plan assets is determined by considering the expected return available on the assets underlying the current investment policy. Expected yields on fixed income investments are based on gross redemption yields as of reporting dates.

The carrying amounts disclosed above reasonably approximate fair value at the reporting date. Accounts payable pertain to projected benefit payable and accrued trust fees.

Net unrealized gains (losses) on investments follow:

	2019	2018
Equity securities	**₱1,053,809**	₱969,934
Mutual funds	**829,638**	(750,340)
Government debt securities	**204,507**	(1,276,206)
Corporate debt securities	**14,782**	(206,262)
Unit investment trust funds	**4,317**	546,157
	₱2,107,053	(₱716,717)

Actual return on plan assets amounted to ₱3.1 million and ₱3.7 million in 2019 and 2018, respectively.

Amounts for the current and previous periods are as follows:

	2019	2018	2017	2016	2015
Benefit obligation	**₱93,826,473**	₱100,904,124	₱143,052,112	₱130,473,783	₱122,921,910
Plan assets	**(80,159,888)**	(99,266,353)	(133,468,823)	(117,824,678)	(105,449,931)
Deficit	**13,666,585**	₱1,637,771	₱9,583,289	₱12,649,105	₱17,471,979
Experience gains (losses) adjustments on:					
Plan liabilities	**(4,146,427)**	₱3,534,107	(₱757,087)	₱1,861,086	₱6,071,874
Plan assets	**(9,520,158)**	(12,065,403)	(3,260,924)	(7,449,360)	2,558,265
	(₱13,666,585)	₱8,531,296	(₱4,018,011)	(₱5,588,274)	₱8,630,139

The principal actuarial assumptions used are as follows:

	2019	2018
Discount rate	**4.95%**	7.35%
Expected return on plan assets	**3.57%**	2.25%
Salary increase rate	**5.00%**	6.00%
Average remaining working lives	**17 years**	17 years

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

	2019		2018	
Discount rate	**+0.50%**	**(₱3,747,507)**	+0.50%	(₱2,753,883)
	-0.50%	**4,243,523**	-0.50%	3,084,553
Salary increase rate	**+0.50%**	**4,084,789**	+0.50%	3,138,941
	-0.50%	**(3,879,431)**	-0.50%	(3,097,902)

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. It is the policy of the Trustee that immediate and near-term retirement liabilities of the Company's Retirement Fund are adequately covered by its assets. As such, due considerations are given that portfolio maturities are matched in accordance with due benefit payments. The Retirement Fund's expected benefits payments are determined through the latest actuarial reports.

23. Occupancy Expenses

This account consists of:

	2019	2018
Repairs and maintenance	**₱18,801,082**	₱19,653,502
Amortization - right of use assets (Note 10)	**19,892,973**	–
Depreciation and amortization - property and equipment and intangible assets (Note 9)	**9,562,528**	9,544,730
Rent	**6,466,445**	19,149,638
Light and water	**7,269,822**	7,185,745
Others	**188,084**	186,873
	₱62,180,934	₱55,720,488

Rent expenses are related to short-term leasing agreements that the Company entered into for its servicing branches and clinics.

- In June 1, 2019, the Company entered into a lease agreement for its new branch in Malolos, Bulacan. The lease covers a period of one year from June 5, 2019 to June 15, 2020.

- The Company renewed its lease agreement for its Iloilo branch for one year, covering the period March 1, 2019 to February 28, 2020. Management however decided to close the branch in October 2019. No additional penalties were paid on the pre-termination.

- On July 1, 2019, the Company renewed its lease agreement for the clinic located in the Medical Arts Tower, Dr. Eugenio Lopez Jr. Medical Complex in Pasig City. The contract is for a period of one year and will expire on June 30, 2020.
- The Company renewed its lease agreement with Medical Doctors, Inc. for its clinic in Makati Medical Center for a period of one year from March 16, 2019 to March 15, 2020.
- On November 5, 2018, the Company entered into a new lease agreement with Welding Industries of the Philippines, Inc. for additional home office space at Oppen building (unit 203B). The lease expired on November 5, 2019, and the Company and the lessor have already agreed to renew the contract for another three (3) years (see Note 10).
- In May 3, 2019, the Company has entered into a new lease agreement for additional office space at Oppen building (unit 204) with Welding Industries of the Philippines, Inc. The one-year lease will expire on May 2, 2020.

Rental deposits as of December 31, 2019 and 2018 amounted to ₱7.4 million and ₱4.1 million respectively.

24. **Income Taxes**

Provision for (benefit from) income tax consists of:

	2019	2018
Current	**₱36,725,944**	₱74,531,127
Deferred	**1,104,708**	(2,632,895)
Final	**19,912,700**	16,163,238
	₱57,743,352	₱88,061,470

Deferred tax assets are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The details of the Company's deferred tax assets as at December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets on:		
Affecting profit and loss:		
Accrued expenses	**₱8,983,295**	₱13,450,766
Unamortized contribution of past service cost	**933,699**	931,243
Post-employment benefit obligation	**4,099,976**	3,050,720
Allowance for impairment losses	**8,290,586**	5,979,535
Affecting other comprehensive income:		
Tax effect of actuarial loss on pension liability	**4,099,976**	–
Net unrealized losses on financial assets at FVOCI	–	2,846,099
	26,407,532	26,258,363
Deferred tax liabilities on:		
Affecting other comprehensive income:		
Tax effect of actuarial gain on pension liability	–	2,559,389
Net unrealized gains on financial assets at FVOCI	**1,006,820**	–
	1,006,820	2,559,389
Deferred tax assets - net	**₱25,400,712**	₱23,698,974

The movements of the Company's net deferred tax assets are as follow:

	2019	2018
At January 1	**₱23,698,974**	₱20,779,369
Provision	**(1,104,708)**	2,632,895
Tax effect of actuarial loss (gain) on pension liability (Note 22)	**6,659,365**	(2,559,389)
Tax effect on unrealized losses (gains) on financial assets at FVOCI	**(3,852,919)**	2,846,099
At December 31	**₱25,400,712**	₱23,698,974

The reconciliation of provision for income tax computed at the statutory tax rate to provision for income tax as shown in the statements of comprehensive income follows:

	2019	2018
At statutory tax rate	**₱82,440,318**	₱93,995,106
Tax effects:		
Nondeductible expenses	**1,592,819**	1,397,039
Non-taxable income	**(10,300,433)**	(4,405,128)
Unrealized losses (gains) on financial assets at FVPL	**(3,514,468)**	6,932,447
Income subjected to final tax	**(12,474,884)**	(9,857,994)
At effective tax rate	**₱57,743,352**	₱88,061,470

25. Related Party Transactions

Transactions between related parties are based on terms similar to those offered to nonrelated parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

In the normal course of the business, the Company has various transactions with its related parties as follows:

a. Loans to officers consist of car loans which earn interest ranging from 0%-8.4% per annum depending on the position of the employee. Total loans outstanding amounted to ₱17.4 million and ₱11.0 million as of December 31, 2019 and 2018, respectively. The related interest income on the salary loans amounted to ₱0.1 million and ₱0.4 million for the years ended December 31, 2019 and 2018, respectively (see Note 8).

b. In 2019 and 2018, directors' remuneration included in management and professional fees under "General and administrative expenses" amounted to ₱1.9 million and ₱1.0 million, respectively (Note 20).

c. Details of key management compensation follows:

	2019	2018
Salaries and other short-term benefits	**₱56,654,816**	₱49,534,070
Post-employment benefits	**6,849,567**	5,988,669
Fringe benefits	**3,956,090**	3,101,884
Social security cost	**216,121**	132,980
	₱67,676,594	₱58,757,603

Key management includes officers with positions of Vice President and up.

d. Outstanding balances with related parties as of December 31 are as follow:

	2019					
	Relationship	**Nature of Transaction**	**Amount/ Volume**	**Outstanding Receivable (Payable) Balance**	**Terms**	**Conditions**
Maybank ATR KE Securities	**Entity under common control**	**Common expenses / Premium refund**	**₱-**	**(₱4,106,262)**	**Interest free, payable on demand**	**Unsecured**
Maybank ATR KE Capital	**Parent company**	**Common expenses**	**(197,967)**	**(7,568,172)**	**Interest free, payable on demand**	**Unsecured**
Etiqa International Holdings Sdn. Bhd.	**Parent company**	**Expenses for rebranding initiative**	**1,584,244**	**1,584,244**	**Interest free, payable on demand**	**Unsecured**
			₱1,386,277	**(₱10,090,190)**		

	2018					
	Relationship	Nature of Transaction	Amount/ Volume	Outstanding Receivable (Payable) Balance	Terms	Conditions
Maybank ATR KE Securities	Entity under common control	Common expenses / Premium refund	(₱4,233,479)	(₱4,106,261)	Interest free, payable on demand	Unsecured
Maybank ATR KE Capital	Parent company	Common expenses	610,040	(7,370,205)	Interest free, payable on demand	Unsecured
			(₱3,623,439)	(₱11,476,466)		

Due to Maybank ATR KE Securities represents premium refund for resigned employees covered by the group hospitalization plan and charges for common expenses. These are settled within one year.

Due to Maybank ATR KE Capital represents operational advances and common expenses which are due and payable on demand. These are settled within one year.

Due from Etiqa International Holdings Sdn. Bhd. pertains to expenses incurred for the rebranding initiatives of the Company, changing its name from ALGA to ELGAP.

e. The Company has bank deposits with Maybank Philippines Inc. as of December 31, 2019 and 2018 amounting P227.5 million and P217.8 million, respectively. The Company also maintains time deposit accounts with Maybank Philippines Inc. as of December 31, 2019 and 2018 amounting ₱172.2 million and ₱153.4 million, respectively. Interest income earned in 2019 and 2018 amounted to ₱11.8 million and ₱10.6 million, respectively (see Note 17).

Terms and conditions of transactions with related parties
The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2019 and 2018. This assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. Outstanding balances will be settled in cash.

26. Management of Capital and Insurance Risk

The Company's activities expose it to a variety of risks such as capital, financial and insurance risks. The overall objective of risk management is to focus on the unpredictability of financial markets and insurance contingencies to minimize potential adverse effects on the financial position of the Company.

The Company has established risk management functions with clear cut responsibilities and with the mandate to develop company-wide policies on market, credit, liquidity, insurance and operational risk management. It also supports the effective implementation of risk management policies at the individual business unit and process levels.

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

Regulatory Framework
Regulators are interested in protecting the rights of the policyholders and maintain close monitoring 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 liquidity and solvency positions to meet maturing liabilities arising from claims and acceptable levels of risk.

The operations of the Company are subject to the regulatory requirements of the Insurance Commission. The Insurance Commission does not only prescribe approval and monitoring of activities but also imposes certain restrictive provisions [e.g. fixed capitalization requirements and risk-based capital (RBC) requirements]. Such restrictive provisions minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise.

Capital Management
The Company's capital includes the common and preferred stock and contributed surplus.

The Company has established the following capital management objectives in managing the risks that affect its capital position:

- To maintain the required level of net worth thereby providing a degree of security to policyholders;
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders;
- To retain financial flexibility by maintaining strong liquidity and access to a range of credit facilities;
- To align the profile of assets and liabilities taking account into the risks inherent in the business;
- To maintain healthy capital and liquidity ratios in order to support its business objectives and maximize shareholders value.

The Company manages its capital through its compliance with the statutory requirements on minimum net worth. The Company is also complying with the statutory regulations on RBC to measure the adequacy of its statutory surplus in relation to the risks inherent in its business. The RBC method involves developing a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. The target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

The Company’s policy to address the situations where the capital level maintained is lower than minimum is to require the shareholders to add more capital. The Company currently holds net worth in excess of the minimum regulatory requirement.

To ensure compliance with these externally-imposed capital requirements, it is the Company’s policy to monitor the net worth and related requirements on a quarterly basis as part of Company's internal financial reporting process.

Fixed capitalization requirements
Pursuant to the provision of Section 194 of the New Insurance Code (“the Code”), no new life or non-life insurance business will be licensed in the Philippines unless it has paid-up capital of One Billion Pesos (₱1,000,000,000).

Under the new Insurance Code, the required net worth which is defined as the sum of paid-up capital, retained earnings, unimpaired surplus, and revalued assets is set as follows:

Required Net Worth	Compliance Date
₱250.0 million	June 30, 2013
550.0 million	December 31, 2016
900.0 million	December 31, 2019
1.3 billion	December 31, 2022

As of December 31, 2019, and 2018, the Company’s estimated statutory net worth amounted to ₱1.8 billion and ₱1.5 billion, respectively.

Insurance Commission Circular Letter (CL) No. 2018-45 issued in September 5, 2018 sets the net worth requirements for composite insurers at ₱1.1 billion by December 31, 2016, ₱1.8 billion by December 31, 2019 and ₱2.6 billion by December 31, 2022. However, in October 25, 2019, the Insurance Commission issued Circular Letter No. 2019-55 revoking CL No. 2018-45, citing the need for a clear basis to seek and wait for appropriate legislation that will provide greater clarity on the minimum capitalization and net worth requirements.

RBC requirements
Insurance Memorandum Circular (IMC) No. 6-2006 (Circular) provides for the RBC framework for the life insurance industry which establishes the required amounts of capital to be maintained by the insurance companies in relation to their investment and insurance risks. Subsequently, Insurance Circular 2016-68 amended the RBC framework (dubbed ‘RBC2’) as part of a new three (3) pillar risk-based approach to solvency regulation. The Risk Based Capital Ratio and Risk Based Capital Requirement are the key requirements under Pillar 1. The RBC2 framework became effective on January 1, 2017.

Every life insurance company is annually required to maintain an RBC ratio of at least 100.00% and not to fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to regulatory intervention which could be at various levels depending on the degree of the violation.

The RBC2 ratio shall be computed as the Total Available Capital divided by the RBC requirement. The Total Available Capital is the aggregate of the 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 the losses of the insurer at all times on a going concern and winding up basis. The Tier 2 Capital does not have the same high-quality characteristics as Tier 1 but can provide additional buffer to the insurer. The RBC requirement on the other hand is the capital that is required to be held appropriately to the risks and insurance company is exposed to such as Credit Risk, Insurance Risk, Market Risk, Operational Risk, Catastrophe Risk and Surrender Risk.

The following table shows how the RBC ratios at December 31, 2019 and 2018 were determined by the Company based on its internal calculations:

	2019	2018
Total Available Capital (TAC)	**₱1,845,875,982**	₱1,590,173,739
RBC2 requirement (RBC2)	**387,126,225**	308,038,674
RBC2 ratio	**476.82%**	516.23%

The final amount of the RBC ratio can be determined only after the accounts of the Company have been examined by the Insurance Commission specifically for the determination of admitted and non-admitted assets as defined under the Insurance Code.

Unimpaired capital requirement
IMC 22-2008 provided that for purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement of financial position should show that the net worth or stockholders' equity is at least equal to the actual paid-up capital.

The Company has complied with the unimpaired capital requirement as of December 31, 2019 and 2018.

Insurance Risk
Nature of risk
The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

Life Insurance Contracts
Insurance risk includes premium/benefits risk, actuarial reserve risk and reinsurance risk. Premium/benefits risk is the risk of having to pay, from a premium that may be fixed for a specific term, benefits that can be affected by uncontrollable event when they become due. Adequacy of the actuarial reserves is monitored by an in-house actuary on a regular basis in accordance with local regulations. Reinsurance risk arises from underwriting direct business or reinsurance business in relation to reinsurers and brokers.

Monitoring and controlling
The Company regularly assesses the reserving methodology in accordance with local regulations. Underwriting guidelines and limits for insurance and reinsurance contracts have been well established to clearly regulate responsibility and accountability.

The main underwriting strategy of the Company in managing insurance risk is the use of reinsurance. The Company maintains surplus-type reinsurance treaties for both individual and group life business.

Frequency and severity of claims
The frequency and severity of claims is dependent on the type of contracts as follows:
a. For contracts where death is the insured risk, the most significant factor would be epidemics that result in earlier or more claims than expected;
b. For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted;
c. For contracts with discretionary participating feature, the participating nature of these insurance contracts results in a portion of the insurance risk being shared with the insured party; and
d. For medical insurance contracts where illness incurred by the insured is the considered risk, the most significant factor would be epidemics and communicable diseases, that may result in earlier or more claims than expected.

The Company manages these risks through its underwriting strategy and reinsurance program. However, the risk is also dependent on the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely.

The following represents the Company's concentration of insurance risk as of December 31, 2019 and 2018:

	2019		2018	
	Exposure, Net of Reinsurance (‘000)	**Concentration (%)**	Exposure, Net of Reinsurance (‘000)	Concentration (%)
Group	**₱94,408,721**	**99.62%**	₱104,530,078	99.78%
Ordinary life	**204,621**	**0.22%**	214,264	0.20%
Unit-linked policies	**147,728**	**0.16%**	25,957	0.02%
	₱94,761,070	**100.00%**	₱104,770,299	100.00%

Summary of claims analysis

	2019	2018
Mortality Ratio		
Aggregate individual	**59.72%**	10.96%
Aggregate group	**49.00%**	61.38%

Classification by attained age

2019

The table below presents the concentration of risk across the 14 age brackets. For individual insurance, exposure is concentrated on age brackets 50-54. For group insurance, exposure is concentrated on age brackets 35-39.

	Individual			
	Gross Reinsurance		Net of reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
<20	₱39,751,673	11.96%	₱34,907,570	13.92%
20 – 24	11,800,645	2.41%	6,808,163	2.26%
25 – 29	30,376,839	6.64%	17,978,629	6.18%
30 – 34	39,551,219	9.39%	20,992,737	8.40%
35 – 39	39,958,229	11.25%	20,736,011	9.89%
40 – 44	54,152,176	11.75%	33,207,776	10.70%
45 – 49	64,287,362	16.34%	40,028,833	13.53%
50 – 54	80,274,406	10.89%	52,844,942	10.93%
55 – 59	59,050,108	7.14%	42,562,498	8.34%
60 – 64	49,416,106	5.71%	38,584,198	7.48%
65 – 69	36,243,523	4.42%	27,139,034	5.15%
70 – 74	12,564,119	1.57%	11,434,861	2.29%
75 – 79	3,073,628	0.36%	3,073,628	0.62%
80 +	2,050,000	0.18%	2,050,000	0.32%
Total	₱522,550,033	100.00%	₱352,348,880	100.00%

	Group			
	Gross Reinsurance		Net of reinsurance	
Attained Age	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
<20	₱763,045	0.42%	₱370,471	0.39%
20 – 24	14,668,203	8.00%	9,340,740	9.89%
25 – 29	32,594,476	17.77%	19,762,837	20.93%
30 – 34	35,602,142	19.41%	18,992,165	20.12%
35 – 39	37,246,968	20.30%	16,584,004	17.57%
40 – 44	26,073,264	14.21%	11,690,268	12.38%
45 – 49	16,914,962	9.22%	7,799,344	8.26%
50 – 54	10,015,929	5.46%	4,806,727	5.09%
55 – 59	5,151,787	2.81%	2,563,194	2.71%
60 – 64	2,734,995	1.49%	1,514,692	1.60%
65 – 69	1,095,555	0.60%	627,514	0.66%
70 – 74	388,323	0.21%	236,652	0.25%
75 – 79	166,385	0.09%	96,445	0.10%
80 +	39,411	0.02%	23,668	0.03%
Total	₱183,455,445	100.00%	₱94,408,721	100.00%

2018

The table below presents the concentration of risk across the 14 age brackets. For individual insurance, exposure is concentrated on age brackets 50-54. For group insurance, exposure is concentrated on age brackets 30-34 to 35-39.

	Individual			
	Gross Reinsurance		**Net of reinsurance**	
Attained Age	**Exposure ‘000**	**Concentration (%)**	**Exposure ‘000**	**Concentration (%)**
<20	₱20,523	6.98%	₱20,393	8.49%
20 – 24	4,518	1.54%	3,774	1.57%
25 – 29	6,742	2.29%	5,302	2.21%
30 – 34	8,791	2.99%	6,937	2.89%
35 – 39	9,002	3.06%	5,807	2.42%
40 – 44	24,566	8.36%	19,130	7.96%
45 – 49	25,987	8.84%	23,161	9.64%
50 – 54	61,765	21.01%	45,161	18.80%
55 – 59	48,525	16.51%	39,810	16.57%
60 – 64	37,958	12.91%	32,871	13.68%
65 – 69	31,803	10.82%	24,101	10.03%
70 – 74	9,006	3.06%	9,006	3.75%
75 – 79	3,777	1.29%	3,777	1.57%
80 +	990	0.34%	990	0.41%
Total	₱293,953	100.00%	₱240,220	100.00%

	Group			
	Gross Reinsurance		Net of reinsurance	
Attained Age	Exposure ‘000	Concentration (%)	Exposure ‘000	Concentration (%)
<20	₱983,920	0.55	₱482,322	0.46
20 – 24	18,867,190	10.57	13,030,223	12.47
25 – 29	34,601,025	19.38	22,923,337	21.93
30 – 34	37,061,863	20.76	20,908,675	20.00
35 – 39	34,501,767	19.32	17,682,226	16.92
40 – 44	22,143,921	12.40	11,709,457	11.20
45 – 49	14,511,433	8.13	7,670,187	7.34
50 – 54	7,781,470	4.36	4,529,693	4.33
55 – 59	4,995,820	2.80	3,228,077	3.09
60 – 64	2,499,118	1.40	1,910,270	1.83
65 – 69	491,919	0.28	356,382	0.34
70 – 74	74,573	0.04	68,188	0.07
75 – 79	30,451	0.02	30,451	0.03
80 +	590	0.00	590	0.00
Total	₱178,545,060	100.00%	₱104,530,078	100.00%

Nonlife Insurance Contracts
The Company principally issues the following types of general insurance such as fire and motor. Risk under general insurance policies usually cover a twelve-month duration.

For general insurance contracts, the significant risks arise from climate changes and natural disasters. These risks vary significantly in relation to the location of risk insured, type of risk insured and by industry. Undue concentration by amount can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography.

Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit the exposure to catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by management.

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

	2019	2018
Motor car	**₱25,291,139**	₱8,850,225
Fire	**17,656,255**	5,052,573
Personal accident	**162,900**	–
Travel insurance	**135,327**	1,093
	₱43,245,621	₱13,903,891

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

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

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

Claims Development Table
The following tables reflect the cumulative incurred claims 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 insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

Fire

Accident year	**2019**	2018
Estimate of ultimate claims costs:		
At the end of accident year	**₱15,797,079**	₱4,089,554
One year later	**–**	–
Two years later	**–**	–
Three years later	**–**	–
Four years later	**–**	–
Current estimate of cumulative claims	**15,797,079**	4,089,554
Cumulative payments to date	**45,275**	313,093
Gross insurance liabilities included in the statements of financial position	**₱15,751,804**	₱3,776,461

Motor Car

Accident year	**2019**	2018
Estimate of ultimate claims costs:		
At the end of accident year	**₱33,859,405**	₱23,738,448
One year later	**–**	–
Two years later	**–**	–
Three years later	**–**	–
Four years later	**–**	–
Current estimate of cumulative claims	**33,859,405**	23,738,448
Cumulative payments to date	**11,412,546**	17,124,927
Gross insurance liabilities included in the statements of financial position	**₱22,446,859**	₱6,613,521

Source of Uncertainty in the Estimation of Future Claim Payments
Estimation of future payments and premium receipts is subject to unpredictability of changes in mortality and morbidity levels. The Company adopts standard industry data in assessing future benefit payments and premium receipts as approved by the Insurance Commission. Adjustments are made, if necessary, according to the experience of the Company.

For individual life insurance, no adjustment is made by the Company to the standard mortality table. For group life, accident and health insurance, the mortality table is adjusted to reflect the Company's actual and projected experiences which are given weights or credibility depending on the amount and length of exposure under consideration. The Company currently monitors its actual experience on individual business on a per policy basis and on an aggregate basis, and reports the same to management.

The liability for these contracts comprises the incurred IBNR provision, a provision for reported claims not yet paid and a provision for unexpired risk at reporting dates. The IBNR provision is based on historical experience and is subject to a degree of uncertainty.

Financial Instruments
Due to the short-term nature of cash and cash equivalents, premiums due and uncollected, due from policyholders, receivable from third party administration, other receivables, accrued interest receivable, performance bond, reserve and security funds, deposits, claims payable, policyholders' dividends due to related parties, premium deposit fund and cash dividends payable, their carrying values approximate their fair values at reporting dates.

The fair values of salary loans, mortgage loans, accounts receivable and accounts payable and other liabilities are determined by computing the present value of the expected future cash flows of the loans using the predetermined market rate for similar instrument as of reporting date as discount rate.

The fair values of financial instruments classified as financial assets at FVPL and at FVOCI that are actively traded in an organized exchange or active markets are determined by reference to quoted market or broker bid prices at the close of business as of reporting dates. For shares in an open-ended investment company, fair value is established by reference to published Net Asset Value (NAV) per share.

The table below presents the Company's financial instruments carried at fair value by valuation method as of December 31, 2019 and 2018.

	December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets at FVOCI	**₱1,596,364,800**	**₱–**	**₱–**	**₱1,596,364,800**
Financial assets at FVPL	**260,322,034**	**–**	**4,370,280**	**264,692,314**
	₱1,856,686,834	**₱–**	**₱4,370,280**	**₱1,861,057,114**

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value:				
Financial assets at FVOCI	₱1,439,607,972	₱–	₱–	₱1,439,607,972
Financial assets at FVPL	214,919,580	25,361,176	₱3,320,280	243,601,036
	₱1,654,527,552	₱25,361,176	₱3,320,280	₱1,683,209,008

For the years ended December 31, 2019 and 2018, there were no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

Financial Risks
The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The relevant financial risks faced by the Company in its day-to-day operations are market risk, credit risk and liquidity risk.

The BOD is the ultimate governing body with overall risk oversight. Risk Management Committee (RMC) assists the Board in fulfilling its supervision and monitoring responsibilities in respect of internal control, including monitoring the risk profile of the legal entities and combined and compared to the targeted level of risk appetite as set by the Board. Management Risk Committee (MRC) is the advisor to the RMC concerning all Risk related topics, including limits, exposures and methodologies.

Credit Risk
The Company has a significant exposure to credit risk, defined as the risk of financial loss resulting from the failure of counterparty to meet its contractual obligations to the Company. In particular, the Company is exposed to credit risk in the following accounts:

- Amounts due from Department of Education (DepEd) teachers and private institution employees;
- Amounts due from related parties and employees;
- Reinsurers' share in insurance liabilities;
- Obligations of companies issuing Mutual Fund shares and equity securities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance policyholders;
- Amounts due from insurance intermediaries; and
- Amounts due from banks.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty. Such counterparty limits are subject to an annual or more frequent review. Limits are approved regularly as the need arises at the BOD level. A Credit Committee, which reports to the Management Committee (ManCom), has been established by the BOD to monitor the credit management and exposure of the Company.

The Company fully complies with the guidelines issued by the DepEd in granting loans to teachers which are monitored by DepEd on a regular basis. Any violation shall result to the revocation of the Company's license to extend loans to public school teachers. The Company's credit evaluation policies are anchored on the DepEd guidelines on net take home pay of the teachers and authenticity of documents submitted by the borrowers.

The ManCom has also created a special committee (DepEd Committee), tasked to monitor the DepEd loans business. The DepEd Committee meets on a monthly basis to discuss developments and status of past due accounts, action plans for collecting unpaid accounts and other pertinent issues relative to the loans operations. The DepEd Committee, in turn, reports to the ManCom the status of the loans business on a regular basis.

Loans to policyholders granted against the cash surrender value of policies carry substantially minimal credit risk.

A significant credit exposure arises with respect to reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs. Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

In respect of investments securities, the Company secures satisfactory credit quality by setting maximum limits of portfolio securities with a single or group of issuers, excluding those secured on specific assets and setting the minimum ratings for the issuer. The Company sets the maximum amounts and limits that may be advanced to/placed with individual corporate counterparties which are set by reference to their long term ratings

The table below shows the maximum exposure to credit risk as of December 31, 2019 and 2018:

	2019	2018
Cash and cash equivalents (excluding cash on hand)	**₱893,334,472**	₱945,858,023
Premiums due and uncollected	**487,417,691**	293,467,082
Financial assets at FVPL	**264,692,314**	243,601,036
Financial assets at FVOCI	**1,596,364,800**	1,439,607,972
Financial assets at amortized cost	**403,727,855**	162,232,010
Performance bond	**8,493,452**	8,193,422
Accrued interest receivable	**13,783,028**	11,780,250
Rental deposits	**7,414,140**	4,123,090
Reserve fund	**581,384**	581,384
Security fund	**221,082**	221,082
	₱3,676,030,218	₱3,109,665,351

The table below provides information regarding the credit risk exposure of the Company as of December 31, 2019 and 2018 by classifying assets according to the Company's credit grading of counterparties:

	Neither Past Due nor Impaired				
2019	**Investment High-Grade**	**Non-Investment Grade Satisfactory**	**Total Financial Assets Neither Past Due nor Impaired**	**Past Due and Impaired**	**Total**
Cash and cash equivalents (excluding cash on hand)	**₱893,334,472**	**₱–**	**₱893,334,472**	**₱–**	**₱893,334,472**
Premiums due and uncollected	**487,417,691**	**–**	**487,417,691**	**–**	**487,417,691**
Financial assets at amortized cost:					
Salary loans	**–**	**211,537,841**	**211,537,841**	**4,079,018**	**215,616,859**
Mortgage loans	**–**	**18,101,681**	**18,101,681**	**–**	**18,101,681**
Policy loans	**–**	**12,708,232**	**12,708,232**	**–**	**12,708,232**
Accounts receivable	**–**	**11,389,431**	**11,389,431**	**982,916**	**12,372,347**
Due from policyholders	**–**	**23,722,381**	**23,722,381**	**–**	**23,722,381**
Receivable from unit-linked funds	**–**	**20,872,935**	**20,872,935**	**–**	**20,872,935**
Receivable from third party administration	**–**	**77,983,885**	**77,983,885**	**–**	**77,983,885**
Other receivables	**–**	**22,349,535**	**22,349,535**	**–**	**22,349,535**
Accrued interest receivable	**13,783,028**	**–**	**13,783,028**	**–**	**13,783,028**
Other assets:					
Performance bond	**–**	**8,493,452**	**8,493,452**	**–**	**8,493,452**
Reserve fund	**581,384**	**–**	**581,384**	**–**	**581,384**
Security fund	**221,082**	**–**	**221,082**	**–**	**221,082**
Deposits	**–**	**7,414,140**	**7,414,140**	**–**	**7,414,140**
Financial assets at FVOCI:					
Government debt securities	**1,244,538,656**	**–**	**1,244,538,656**	**–**	**1,244,538,656**
Corporate debt securities	**351,826,144**	**–**	**351,826,144**	**–**	**351,826,144**
Financial assets at FVPL:					
Mutual fund	**260,229,545**	**–**	**260,229,545**	**–**	**260,229,545**
Equity Shares	**4,462,769**	**–**	**4,462,769**	**–**	**4,462,769**
	₱3,256,394,771	**₱414,573,513**	**₱3,670,968,284**	**₱5,061,934**	**₱3,676,030,218**

2018	Neither Past Due nor Impaired Investment High-Grade	Non-Investment Grade Satisfactory	Total Financial Assets Neither Past Due nor Impaired	Past Due and Impaired	Total
Cash and cash equivalents (excluding cash on hand)	₱945,858,023	₱–	₱945,858,023	₱–	₱945,858,023
Premiums due and uncollected	293,467,082	–	293,467,082	–	293,467,082
Financial assets at amortized cost:					
Salary loans	–	58,149,367	58,149,367	5,431,331	63,580,698
Mortgage loans	11,608,975	–	11,608,975	–	11,608,975
Policy loans	13,349,153	–	13,349,153	–	13,349,153
Accounts receivable	13,836,395	–	13,836,395	982,916	14,819,311
Due from policyholders	–	20,011,348	20,011,348	–	20,011,348
Receivable from unit-linked funds	–	4,882,305	4,882,305	–	4,882,305
Receivable from third party administration	–	24,079,115	24,079,115	–	24,079,115
Other receivables	–	9,901,105	9,901,105	–	9,901,105
Accrued interest receivable	11,780,250	–	11,780,250	–	11,780,250
Other assets:					
Performance bond	8,193,422	–	8,193,422	–	8,193,422
Reserve fund	581,384	–	581,384	–	581,384
Security fund	221,082	–	221,082	–	221,082
Deposits	4,123,090	–	4,123,090	–	4,123,090
Financial assets at FVOCI:					
Government debt securities	1,247,381,550	–	1,247,381,550	–	1,247,381,550
Corporate debt securities	192,226,422	–	192,226,422	–	192,226,422
Financial assets at FVPL:					
Government debt securities	31,860,247	–	31,860,247	–	31,860,247
Mutual fund	208,341,556	–	208,341,556	–	208,341,556
Equity Shares	3,399,233	–	3,399,233	–	3,399,233
	₱2,986,227,864	₱117,023,241	₱3,103,251,104	₱6,414,247	₱3,109,665,351

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

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

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

The table below shows the aging analysis of salary loans and other receivables that are past due as of December 31, 2019 and 2018:

2019	**Past due but are not Impaired** **<30 to 90 Days**	**90 to 180 Days**	**Total Financial Assets Neither Past Due nor Impaired**	**Past Due and Impaired**	**Total**
Salary loans	**₱4,902,692**	**₱723,173**	**₱5,625,865**	**₱4,079,018**	**₱9,704,883**
Accounts and other receivables	**-**	**-**	**-**	**982,916**	**982,916**
	₱4,902,692	**₱723,173**	**₱5,625,865**	**₱5,061,934**	**₱10,687,799**

2018	Past due but are not Impaired <30 to 90 Days	90 to 180 Days	Total Financial Assets Neither Past Due nor Impaired	Past Due and Impaired	Total
Salary loans	₱358,833	₱3,453,498	₱3,812,331	₱1,619,000	₱5,431,331
Accounts and other receivables	–	–	–	982,916	982,916
	₱358,833	₱3,453,498	₱3,812,331	₱2,601,916	₱6,414,247

The Company has concentration of credit risk in the DepEd salary loan business as of December 31, 2019 and 2018.

Liquidity Risk
The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Company maintains minimum proportion of sufficient funds available to meet such calls to cover maturities, claims and surrenders at unexpected levels of demand.

The BOD has formed an Asset and Liability Committee (ALCO) which meets on a quarterly basis to ensure the adequacy of reserves and liquid assets and complies with the regulatory reserve and liquidity requirements. Cash forecasts are prepared and reviewed by the ALCO, DepEd Committee and Investment Committee to ensure that the operational funding requirements are adequately met.

The table below summarizes the maturity profile of the Company's liabilities at December 31, 2019 and 2018 based on contractual undiscounted payments except for the legal policy reserves of the life insurance contracts (included in the "Insurance contract liabilities" account) which shows the maturity analysis based on the estimated timing of the net cash outflows using the recognized insurance liability amounts:

2019

	On Demand	**Up to a Year**	**1 -2 Years**	**2 -3 Years**	**Over 3 Years**	**Total**
Insurance contract liabilities:						
Legal policy reserves	**₱–**	**₱947,047,695**	**₱3,375,073**	**₱2,075,791**	**₱89,672,217**	**₱1,042,170,775**
Claims payable	–	**299,663,186**	–	–	–	**299,663,186**
Policyholders' dividends	**4,565,634**	–	–	–	–	**4,565,634**
Premium deposit fund	**2,272,858**	–	–	–	–	**2,272,858**
Accounts payable and other liabilities:			–	–	–	
Accounts payable	–	**191,355,153**	–	–	–	**191,355,153**
Life insurance deposits	–	**20,839,449**	–	–	–	**20,839,449**
Accrued expenses	–	**44,531,766**	–	–	–	**44,531,766**
Due to policyholders	–	**25,098,525**	–	–	–	**25,098,525**
Bank loans payable	–	**17,312,797**	**19,822,456**	**10,407,378**	–	**47,542,631**
Insurance Payables	–	**109,706,852**	–	–	–	**109,706,852**
Others	–	**170,839,396**	–	–	–	**170,839,396**
	₱6,838,492	**₱1,826,394,819**	**₱23,197,529**	**₱12,483,169**	**₱89,672,217**	**₱1,958,586,225**

2018

	On Demand	Up to a Year	1 -2 Years	2 -3 Years	Over 3 Years	Total
Insurance contract liabilities:						
Legal policy reserves	₱–	₱508,437,525	₱2,961,266	₱1,821,285	₱78,677,799	₱591,897,876
Claims payable	–	289,180,905	–	–	–	289,180,905
Policyholders' dividends	2,760,923	–	–	–	–	2,760,923
Premium deposit fund	1,978,167	–	–	–	–	1,978,167
Accounts payable and other liabilities:						
Accounts payable	–	183,418,219	–	–	–	183,418,219
Life insurance deposits	–	20,906,362	–	–	–	20,906,362
Accrued expenses	–	101,191,377	–	–	–	101,191,377
Due to policyholders	–	24,443,375	–	–	–	24,443,375
Bank loans payable	–	–	–	–	–	–
Insurance Payables	–	119,534,335	–	–	–	119,534,335
Others	–	60,962,853	–	–	–	60,962,853
	₱4,739,091	₱1,308,074,952	₱2,961,266	₱1,821,285	₱78,677,799	₱1,396,274,393

Market Risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of adverse changes in market prices. Market risk relevant to the Company comprises market rate (fair value interest rate risk) and market price (equity price risk) risks.

Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of adverse changes in market interest rates. Fixed rate securities and receivables, in particular, are exposed to such risk.

The Company's investment policy is to maintain an adequate yield to match the interest necessary to support future policy liabilities. Management's focus is to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

The Company has an Investment Committee which approves all investment undertaking of the Company and meets on a monthly basis. The Company adopts an investment strategy to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer and/or industry concentrations.

The following table shows the information relating to the Company's financial instruments as of December 31, 2019 and 2018 that are exposed to fair value interest rate risk presented by maturity profile:

2019	**Range of Interest Rate**	**On Demand**	**Less than 1 Year**	**1 -2 Years**	**2 -3 Years**	**More than 3 Years**	**Total**
Cash and cash equivalents (excluding cash on hand)	**0.25% - 3.88%**	**₱351,913,372**	**₱541,421,100**	**₱–**	**₱–**	**₱–**	**₱893,334,472**
Financial assets at FVOCI							
Government debt securities	**4.0% - 6.88%**	**–**	**480,655,045**	**1,029,551**	**182,601,808**	**580,252,252**	**1,244,538,656**
Corporate debt securities	**4.2% - 7.8%**	**–**	**78,644,344**	**48,115,142**	**72,074,662**	**152,991,997**	**351,826,144**
Financial assets at FVPL							
Government debt securities	–	**–**	**–**	**–**	**–**	**–**	**–**
Loans and receivables							
Salary loans	**5.7% - 6.5%**	**–**	**19,146,979**	**12,808,621**	**183,661,259**	**–**	**215,616,859**
Mortgage loans	**8.4% - 10.0%**	**–**	**5,721,720**	**12,379,961**	**–**	**–**	**18,101,681**
Policy loans	**10.0%**	**12,708,232**	**–**	**–**	**–**	**–**	**12,708,232**
		364,621,604	**1,125,589,188**	**74,333,274**	**438,337,729**	**733,244,249**	**2,736,126,044**
Policyholders' dividends	**4%**	**4,565,634**	**–**	**–**	**–**	**–**	**4,565,634**
Premium deposit fund	**4-6%**	**2,272,858**	**–**	**–**	**–**	**–**	**2,272,858**
		₱6,838,492	**₱–**	**₱–**	**₱–**	**₱–**	**₱6,838,492**

2018	Range of Interest Rate	On Demand	Less than 1 Year	1 -2 Years	2 -3 Years	More than 3 Years	Total
Cash and cash equivalents							
(excluding cash on hand)	0.25%-5.5%	₱376,783,689	₱566,823,978	₱–	₱–	₱–	₱943,607,668
Financial assets at FVOCI							
Government debt securities	3.63-6.25%	–	205,584,930	194,746,618	84,523,753	762,526,249	1,247,381,550
Corporate debt securities	5.07-7.82%	–	–	63,664,400	4,747,551	123,814,471	192,226,422
Financial assets at FVPL							
Government debt securities	6.55%	31,860,247	–	–	–	–	31,860,247
Loans and receivables							-
Salary loans	5.70%-8.40%	–	22,412,115	7,746,450	33,422,133	–	63,580,698
Mortgage loans	8.40%-10.00%	–	4,475,772	3,263,681	2,823,320	1,046,203	11,608,975
Policy loans	10%	13,349,153	–	–	–	–	13,349,153
		₱421,993,089	₱799,296,795	₱269,421,147	₱125,516,757	₱887,386,924	₱2,503,614,713
Policyholders' dividends	4%	₱2,760,923	₱–	₱–	₱–	₱–	₱2,760,923
Premium deposit fund	3%-5%	1,978,167	–	–	–	–	1,978,167
		₱4,739,091	₱–	₱–	₱–	₱–	₱4,739,091

The sensitivity analysis below is presented for reasonably possible movements in interest rates with all other variables held constant, showing the impact on equity (that reflects adjustments due to changes in fair value of FVOCI financial assets):

	Change in Interest Rate	Impact on Equity
December 31, 2019	1.00%	(₱247,526)
	-1.00%	248,265
December 31, 2018	+1.00%	(₱282,628)
	-1.00%	283,221

In 2019 and 2018, the Company determined the reasonably possible change in interest rate using the historical percentage changes in weighted average yield rates of outstanding securities for the past three years.

Equity Price Risk

The Company's equity price risk exposure relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, equity securities and investment in mutual funds classified as financial assets at FVPL. Such securities are subject to price risk due to possible adverse changes in market values of instruments arising from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Company invests in equity securities for various reasons, including reducing its overall exposure to interest rate risk.

The Company has an IMA with ATRAM Trust Corp. which monitors and manages a portion of the Company's investments. The Investment Committee of the Company oversees its investment undertaking.

The analysis below is performed for reasonably possible movements in PSE index with all other variables held constant, showing the impact on equity and profit before tax:

	Change in PSE Index	Impact on Profit Before Tax	Impact on Equity
December 31, 2019	**5.00%**	**₱4,624**	**₱3,237**
	-5.00%	**(4,624)**	**(3,237)**
December 31, 2018	+5.00%	₱3,948	₱2,763
	-5.00%	(3,948)	(2,763)

In 2019 and 2018, the Company determined the reasonably possible change in PSE index using the specific adjusted data for each equity security the Company holds as of the reporting dates. The adjusted data is the forecasted measure of the volatility of security or a portfolio in comparison to the market as a whole.

The analysis below is performed for reasonably possible movements in NAV per share with all other variables held constant, showing the impact on equity and Profit before tax:

	Change in NAV per Share	Impact on Profit Before Tax	Impact on Equity
December 31, 2019	**5.00%**	**₱1,248,977**	**₱874,284**
	-5.00%	**(1,248,977)**	**(874,284)**
December 31, 2018	+5.00%	₱1,268,059	₱887,641
	-5.00%	(1,268,059)	(887,641)

In 2019 and 2018, the Company determined the reasonably possible change in NAV per share using the historical NAV year-end values for the past three years.

Foreign Currency Risk
The Company's foreign exchange risk arises primarily from any transaction denominated in a foreign currency such as the US Dollar. In 2019 and 2018, the Company's transactions are primarily denominated in Philippine Peso, thus, reducing the Company's exposure to currency risk to an insignificant amount.

27. Contingencies

The Company is currently involved in various legal proceedings and the Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position as of reporting date.

28. Approval of the Financial Statements

The accompanying financial statements of the Company were authorized for issue by BOD on February 19, 2020.

29. Supplementary Tax Information Required Under Revenue Regulations (RR) 15-2010

The Company reported and/or paid the following taxes in 2019:

Value-added tax (VAT)
The NIRC of 1997 provides for the imposition of VAT on sales of goods and services. The Company, however, as a domestic corporation doing life insurance business, is a non-VAT registered Company. Sales or receipts of life insurance premiums are subject to percentage tax called premium tax.

The premium tax rate was reduced from 5.00% to 2.00% pursuant to Republic Act 10001. The Company paid ₱63,183,546 in 2019 and ₱57,103,352 in 2018 in premium taxes.

During the year, the Company's transactions subject to VAT that are declared in the VAT returns amounted to ₱193,841,297.

The Company paid input VAT for the goods and services it acquired in 2019. Input VAT from services lodged under other accounts total ₱3,995,003 in 2019.

Information on the Company's Importations

The Company has not undertaken any importation activity in 2019.

Excise taxes

The Company is neither involved in the local production nor in the importation of excisable items, therefore, has not paid excise taxes.

Documentary stamp tax

On others - policy issuance	₱9,502,122
On loan instruments	1,302,386
	₱10,804,508

Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, license and permit fees. Details of other taxes and licenses in 2019 follow:

Input VAT	₱11,517,807
License and permit fees	14,553,279
Fines and penalties	22,090
Fringe benefit tax	1,364,492
Balance at December 31	₱27,457,668

Withholding Taxes

Details of taxes withheld in 2019 follow:

Creditable withholding taxes	₱128,704,000
Withholding taxes on compensation and benefits	25,476,007
Final withholding Tax	270,960
	₱154,450,967

Tax Assessments and Cases

The Company received Formal Assessment Notices (FAN) from the Bureau of Internal Revenue (BIR) covering different types of taxes for calendar years 2008 and 2013 and Final Decision on Disputed Assessment (FDDA) for calendar year 2010 for these deficiency taxes ranging from 338, 940, 818 to 398,382,011.

Within 30 days after receipt of FAN and FDDA, the Company filed a protest letter with the Office of the Commissioner of Internal Revenue on the findings noted by the BIR and requested reconsideration and reinvestigation based on legal and factual grounds.

In 2019, ELGAP, upon approval of the Board of Directors paid to the Bureau of Internal Revenue the compromise settlement as full satisfaction of the 2009 tax assessment. The non-HMO related assessment for taxable year 2013 were likewise paid during the year.

No feedback received for 2008 FAN.

Management believes that it has a strong case against the BIR and that it should not be liable to pay the deficiency taxes for the following reasons: (a) the Company is an insurance company, was registered as a Non-VAT entity and therefore is not liable to pay the deficiency VAT; (b) the Company is not a Health Maintenance Organization (HMO) as defined under Section 4.108-3(k) of Revenue Regulations No. 16-2005 and therefore exempt from VAT.

In the opinion of management, the eventual liability under these claims, if any, will not have a material or adverse effect on the Company’s financial position and results of operation.