

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR ANNUAL INCOME TAX RETURN**


The management of Allianz PNB Life Insurance, Inc. is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2020. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return veering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2020 and the accompanying Annual Income Tax Return are in accordance with the books and records of Allianz PNB Life Insurance, Inc. complete and correct in all material respects. Management likewise affirms that:

- a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- c) the Allianz PNB Life Insurance, Inc. has filed all applicable tax returns, reports, and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.



ALEXANDER GRENZ
CEO and President



EFREN C. CARINGAL, JR.
SVP & Chief Financial Officer

**COPY FOR THE
BUREAU OF INTERNAL REVENUE**

***Allianz PNB Life
Insurance, Inc.***
(Formerly PNB Life Insurance, Inc.)

Financial Statements

As at and for the years ended December 31, 2020 and 2019



Independent Auditor's Report

To the Stockholders and the Board of Directors of
Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)
9th Floor Allied Bank Center
6754 Ayala Avenue
Makati City

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Allianz PNB Life Insurance, Inc. (the "Company") as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards ("PFRS").

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2020 and 2019;
- the statements of income for the years ended December 31, 2020 and 2019;
- the statements of comprehensive income for the years ended December 31, 2020 and 2019;
- the statements of changes in equity for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Independent Auditor's Report
To the Stockholders and the Board of Directors of
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Independence

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.

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

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

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

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

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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Independent Auditor's Report
To the Stockholders and the Board of Directors of
Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)
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As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Isla Lipana & Co.

Independent Auditor's Report
To the Stockholders and the Board of Directors of
Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)
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Report on the Bureau of Internal Revenue Requirement

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 32 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 supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

A handwritten signature in blue ink, appearing to read 'Imelda Dela Vega-Mangundaya', is written over the printed name and title.

Imelda Dela Vega-Mangundaya
Partner

CPA Cert. No. 0090670

PTR No. 0024586, issued on January 5, 2021, Makati City

SEC A.N. (individual) as general auditors 90670-SEC, Category A, valid to audit 2019 to 2023
financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024
financial statements

TIN 152-015-124

BIR A.N. 08-000745-047-2018, issued on December 10, 2018; effective until December 9, 2021

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
March 3, 2021



Isla Lipana & Co.

Statement required by Section 8 - A, Revenue Regulations No. V - 1

To the Stockholders and the Board of Directors of
Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)
9th Floor Allied Bank Center
6754 Ayala Avenue
Makati City

None of the partners of the firm has any financial interest in Allianz PNB Life Insurance, Inc. or any family relationships with its president, manager or principal shareholder.

The supplementary information on taxes and licenses is presented in Note 32 to the financial statements.

Isla Lipana & Co.

Imelda Dela Vega-Mangundaya
Partner

CPA Cert. No. 0090670

PTR No. 0024586, issued on January 5, 2021, Makati City

SEC A.N. (individual) as general auditors 90670-SEC, Category A, valid to audit 2019 to 2023
financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024
financial statements

TIN 152-015-124

BIR A.N. 08-000745-047-2018, issued on December 10, 2018; effective until December 9, 2021

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
March 3, 2021

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Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)

Statements of Financial Position
As at December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
ASSETS			
Cash and cash equivalents	2	898,566,273	777,818,232
Financial assets for unit-linked contracts	3	35,819,815,670	23,236,579,771
Financial assets at fair value through profit or loss	4	788,372,304	913,868,007
Available-for-sale financial assets	4	13,388,789,611	7,593,116,484
Held-to-maturity investments	4	-	3,447,573,117
Insurance receivables	5	73,202,424	73,182,774
Loans and receivables	6	690,654,842	541,687,924
Prepayments and deposits	7	33,626,331	24,014,643
Property and equipment, net	8	131,998,228	185,530,919
Deferred tax assets, net	25	169,534,369	125,385,512
Other assets, net	9	284,027,498	178,416,937
TOTAL ASSETS		52,278,587,550	37,097,174,320
LIABILITIES			
Insurance provisions	10	12,613,923,860	10,501,264,367
Due to reinsurer		19,195,176	17,760,184
Financial liabilities for unit-linked contracts	3	35,819,815,670	23,236,579,771
Premium deposit fund	12	302,912,612	320,820,633
Accounts payable, accrued expenses, and provisions	13	1,721,700,804	1,212,660,010
Pension liability, net	24	54,560,896	16,124,973
TOTAL LIABILITIES		50,532,109,018	35,305,209,938
EQUITY			
Capital stock	14	250,000,000	250,000,000
Additional paid-in capital		50,000,000	50,000,000
Contingency surplus	14	1,300,000,000	1,300,000,000
Reserve for fluctuation on available-for-sale financial assets	4	2,075,818,977	593,964,398
Remeasurement on aggregate reserves	10	(2,360,996,533)	(660,044,850)
Remeasurement on defined benefit plan	24	(47,161,005)	(31,856,433)
Retained earnings		478,817,093	289,901,267
TOTAL EQUITY		1,746,478,532	1,791,964,382
TOTAL LIABILITIES AND EQUITY		52,278,587,550	37,097,174,320

(The notes on pages 1 to 66 are integral part of these financial statements)

Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)

Statements of Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
GROSS PREMIUMS ON INSURANCE CONTRACTS		2,112,627,959	2,818,519,008
REINSURERS' SHARE OF GROSS PREMIUMS ON INSURANCE CONTRACTS		(46,758,335)	(29,666,685)
NET INSURANCE PREMIUMS	15	2,065,869,624	2,788,852,323
OTHER INCOME			
Investment income	16	697,097,732	667,612,578
Referral and trust fees	3,17	294,257,157	240,743,627
Net fair value gain on financial assets at fair value through profit or loss	4	42,695,909	42,377,187
Gain (loss) on sale of available-for-sale financial assets, net	4	9,663,085	(18,673,692)
Miscellaneous income	18	9,260,773	11,934,167
Total other income		1,052,974,656	943,993,867
TOTAL REVENUE AND OTHER INCOME		3,118,844,280	3,732,846,190
BENEFITS, CLAIMS AND EXPENSES			
Gross life insurance contract benefits and claims	19	586,777,611	688,599,193
Reinsurers' share of life insurance contract benefits and claims	19	(20,605,115)	(26,822,749)
Gross change in aggregate reserves	10	500,943,866	1,532,000,437
Reinsurers' share of change in aggregate reserves	10	-	6,538,254
Gross change in incurred but not reported claims	10,19	30,559,549	(18,841,638)
NET INSURANCE BENEFITS AND CLAIMS		1,097,675,911	2,181,473,497
INSURANCE EXPENSES			
Commissions and agency-related compensation	20	822,087,702	655,448,415
Salaries, wages and employee benefits	23	154,365,720	104,937,400
Taxes and licenses	21	16,307,680	42,509,544
Interest expense	9,12	6,815,927	9,489,521
Medical fees		1,400,923	2,725,233
Total insurance expenses		1,000,977,952	815,110,113
OTHER EXPENSES			
General and administrative expenses	22	764,692,272	937,660,353
Foreign exchange gain, net		(6,283,214)	(6,403,228)
Total other expenses		758,409,058	931,257,125
TOTAL INSURANCE BENEFITS, CLAIMS AND OTHER EXPENSES		2,857,062,921	3,927,840,735
INCOME (LOSS) BEFORE INCOME TAX		261,781,359	(194,994,545)
PROVISION FOR INCOME TAX	25	72,865,533	90,361,617
NET INCOME (LOSS) FOR THE YEAR		188,915,826	(285,356,162)

(The notes on pages 1 to 66 are integral part of these financial statements)

Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)

Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
NET INCOME (LOSS) FOR THE YEAR		188,915,826	(285,356,162)
OTHER COMPREHENSIVE INCOME			
Item that will be reclassified subsequently to profit or loss			
Net unrealised gain on available-for-sale financial assets, net of tax	4	1,481,854,579	1,041,138,336
Items that will not be reclassified subsequently to profit or loss			
Remeasurement losses on retirement plan, net of tax	24	(15,304,572)	(5,213,226)
Remeasurement losses on aggregate reserves, net of tax	10,19	(1,700,951,683)	(998,716,190)
Total other comprehensive (loss) income for the year, net of tax		(234,401,676)	37,208,920
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(45,485,850)	(248,147,242)

(The notes on pages 1 to 66 are integral part of these financial statements)

Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)

Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Capital stock (Note 14)	Additional paid-in capital	Contingency surplus	Reserve for fluctuation on available-for-sale financial assets (Note 4)	Remeasurement on aggregate reserves (Note 10)	Remeasurement on defined benefit plan (Note 24)	Retained earnings	Total
BALANCE AT JANUARY 1, 2019	250,000,000	50,000,000	1,300,000,000	(447,173,938)	338,671,340	(26,643,207)	575,257,429	2,040,111,624
COMPREHENSIVE INCOME								
Net income for the year	-	-	-	-	-	-	(285,356,162)	(285,356,162)
Other comprehensive income (loss) for the year	-	-	-	1,041,138,336	(998,716,190)	(5,213,226)	-	37,208,920
Total comprehensive income (loss) for the year	-	-	-	1,041,138,336	(998,716,190)	(5,213,226)	(285,356,162)	(248,147,242)
BALANCE AT DECEMBER 31, 2019	250,000,000	50,000,000	1,300,000,000	593,964,398	(660,044,850)	(31,856,433)	289,901,267	1,791,964,382
COMPREHENSIVE INCOME								
Net income for the year	-	-	-	-	-	-	188,915,826	188,915,826
Other comprehensive income (loss) for the year	-	-	-	1,481,854,579	(1,700,951,683)	(15,304,572)	-	(234,401,676)
Total comprehensive income (loss) for the year	-	-	-	1,481,854,579	(1,700,951,683)	(15,304,572)	188,915,826	(45,485,850)
BALANCE AT DECEMBER 31, 2020	250,000,000	50,000,000	1,300,000,000	2,075,818,977	(2,360,996,533)	(47,161,005)	478,817,093	1,746,478,532

(The notes on pages 1 to 66 are integral part of these financial statements)

Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)		261,781,359	(194,994,545)
Adjustments for:			
Increase in aggregate reserve for life policies, net of reinsurers' share	10	500,943,866	1,538,538,691
Depreciation and amortization	8,9,22	105,547,030	89,892,179
Unrealized foreign exchange (gain) loss	28	(7,277,280)	31,915,377
Net increase in restricted stock units	23	9,893,912	14,710,168
(Gain) Loss on sale of available-for-sale financial assets	4	(9,663,085)	18,673,692
Net fair value gain on financial assets at fair value through profit or loss	4	(42,695,909)	(42,377,187)
Increase in net pension liability	23,24	17,206,155	11,601,840
Loss on termination of lease contract	8	-	16,482
(Gain) Loss on disposal of fixed assets	18	(282,882)	582,548
Interest expense	9,12,22	8,145,365	12,087,899
Amortization of bond discount/premium, net	4	(17,628,049)	(124,007,080)
Provision (reversal) for net incurred but not reported losses	10,19	30,559,549	(18,841,638)
Interest income	16	(676,030,430)	(614,214,644)
Dividend income	16	(21,067,302)	(53,397,934)
Operating income before changes in operating assets and liabilities		159,432,299	670,185,848
Changes in operating assets and liabilities (Increase) decrease in:			
Financial assets at fair value through profit or loss		167,764,201	(41,307,582)
Financial assets for unit-linked contracts		(13,512,366,663)	(5,781,559,975)
Insurance receivables		(22,279)	4,283,300
Loans and receivables		(348,715,552)	(62,927,983)
Prepayments and deposits		(9,611,688)	1,414,347
Other assets		12,887,145	55,706,675
Increase (decrease) in:			
Accounts payable and accrued expenses		584,772,054	137,213,864
Financial liabilities for unit-linked contracts		13,512,366,663	5,781,559,975
Insurance provisions		519,325,616	1,554,160,916
Premium deposit fund		(513,923,718)	(1,646,138,181)
Due to reinsurer		1,434,992	2,327,900
Cash generated from operations		573,343,070	674,919,104
Interest income received		855,214,058	591,818,062
Dividends received		34,819,912	59,856,943
Income tax paid		(110,605,288)	(90,625,187)
Retirement contributions	24	(633,906)	(4,674,348)
Interest paid on leases	22	(1,329,438)	(2,598,378)
Net cash generated from operating activities		1,350,808,408	1,228,696,196

(forward)

Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

(forwarded)

	Notes	2020	2019
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale or maturities of available-for-sale financial assets	4	834,397,026	1,254,073,548
Property and equipment	8	1,167,535	458,870
Purchases of:			
Available-for-sale financial assets	4	(1,849,111,525)	(1,074,449,990)
Held-to-maturity investments	4	-	(1,238,540,000)
Property and equipment	8	(30,426,999)	(81,352,233)
Software, net	9	(140,969,699)	(59,521,550)
Net cash used in investing activities		(1,184,943,662)	(1,199,331,355)
CASH FLOWS USED IN FINANCING ACTIVITY			
Payments of principal on leases	13	(22,547,444)	(26,844,607)
NET INCREASE IN CASH AND CASH EQUIVALENTS		143,317,302	2,520,234
CASH AND CASH EQUIVALENTS	2		
At January 1		777,818,232	792,321,581
Effect of exchange rate changes on cash and cash equivalents		(22,569,261)	(17,023,583)
December 31		898,566,273	777,818,232

(The notes on pages 1 to 66 are integral part of these financial statements)

Allianz PNB Life Insurance, Inc.
(Formerly PNB Life Insurance, Inc.)

Notes to the financial statements

As at and for the years ended December 31, 2020 and 2019

(All amounts are shown in Philippine Peso, unless otherwise stated)

1. General information

Allianz PNB Life Insurance, Inc. (the “Company”), formerly PNB Life Insurance, Inc., was registered with Philippines Securities and Exchange Commission (SEC) on November 10, 1999 to carry on the business of life insurance. The Company is among the major life insurers in the Philippines, which began operations on August 1, 2001 following the receipt of the Certificate of Authority from the Insurance Commission (IC) of the Philippines on July 1, 2000.

On June 5, 2016, Allianz SE, the ultimate and immediate parent company of the Company, (referred to herein as “Parent Company”) completed its acquisition of 51% of the Company resulting to a shareholder interest of 44% for Philippine National Bank (PNB). The remaining 5% is owned by an individual shareholder. Under the agreements signed in December 2015, Allianz SE will have management control. On September 21, 2016, the SEC approved the amendment of the Company’s article of incorporation to reflect the change in corporate name to “Allianz PNB Life Insurance, Inc.”

The Company’s principal place of business is 9th Floor, Allied Bank Center 6754 Ayala Avenue, Makati City, Philippines. It has 244 employees as at December 31, 2020 (2019 - 229 employees).

COVID-19 pandemic

The pandemic which broke out in 2020 forced governments all over the world, including the Philippines, to implement community lockdowns and quarantines to mitigate the spread of the virus. Unfortunately, these lockdowns caused the demands for goods and services to plummet which ultimately led to the contraction of both the global and domestic economies.

In response to the growing number of COVID-19 cases in the country, Republic Act (RA) No. 11469, otherwise known as “Bayanihan to Heal as One Act” (or simply the “Bayanihan Act”) was enacted into law on March 2020 which granted the President of the Republic of the Philippines additional powers to combat the pandemic and aid certain vulnerable sectors of the economy.

Republic Act (RA) No. 11494, otherwise known as “Bayanihan to Recover as One Act”, was enacted into law by the President of the Republic of the Philippines on September 11, 2020, providing for various statutory COVID-19 response and recovery interventions.

Granting of grace periods on premium payments

Through Circular Letter (CL) No. 2020-95, the Insurance Commission (IC) implemented the provision under Section 4 (UU) of the Bayanihan Act providing one-time 60-day grace period for all life insurance premiums falling due between the date of effectivity of RA No. 11494 until the prescribed coverage period of December 31, 2020. This is applied to each life insurance policy, whether the policyholder has a single policy or multiple policies.

Further, insurance companies shall not charge or apply interest on interests, penalties, fees or other charges during the one-time grace period to future premium of policyholders.

Finally, it provides that an “Opt-Out Offer” for automatic debit/charge arrangements shall be communicated to life insurance policyholders who are enrolled under such scheme, through announcements via electronic mail, SMS, website, and social media channels. The “Opt-Out Offer” shall include an advisory that policyholders who wish to avail of the mandatory grace period shall signify such intention in writing and request termination of their automatic debit/charge arrangements accordingly.

The Company, through the IC circular letter no. 2020-95, has extended 60-day grace period for payments of renewal premiums as required by the Bayanihan Act.

IC reporting reliefs

On May 15, 2020, the IC issued CL No. 2020-60, which provides regulatory relief on net worth requirements where all insurance companies already in compliant with the net worth requirements under Section 194 of the Amended Code before the declaration of the enhanced community quarantine affected by the crisis are relieved from the quarterly compliance of net worth requirements of P900.0 million. Provided, however, that for all insurance companies who are not compliant with the net worth requirements prescribed under the Amended Code before the declaration of the enhanced community quarantine, they are required to put up additional funds to cover the deficiency before availing the relief.

In addition, the IC has provided further guidelines on the implementation of the Amended RBC framework for the calendar year 2020 in order for insurance companies to better utilize their capital requirements while they continue to work on their recovery from the implications of the pandemic.

The Company remains compliant with the net worth and amended RBC framework and did not avail of the reporting relief on net worth requirements.

Overall, the COVID-19 pandemic did not have significant impact on the Company's results of operations, financial position and cashflows as at and for the year ended December 31, 2020. While the country is mostly still under community quarantine, the Company has shifted to digital touch points and channels to adapt and grow in the new contact-less economy.

As of report date, the pandemic remains the topmost concern of governments and businesses alike. The Philippine economy is gradually opening with the imposition of less stringent community quarantine protocols. Likewise, the vaccination program of the government is expected to commence in 2021 which is hoped to slow down the spread of the virus and boost confidence among businesses and consumers. Although the pandemic still poses some risks and uncertainties, the Company, however, remains confident on its ability to absorb some conceivable financial shocks that may arise due to volatile economic conditions.

Authorization of the financial statements

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on February 23, 2021. There are no material events that occurred from February 23, 2021 to March 3, 2021.

2. Cash and cash equivalents

The account at December 31 consists of:

	Note	2020	2019
Petty cash fund		160,256	160,256
Cash in banks			
Peso-denominated		419,874,984	401,658,501
Dollar-denominated		478,531,033	325,999,475
Cash equivalents			
Peso-denominated	26	-	50,000,000
		898,566,273	777,818,232

Cash in banks earns interest at the prevailing bank deposit rates.

Cash equivalents are made for varying periods not exceeding three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing cash equivalents deposit rates that ranged from 0.02% to 3.75% in 2020 (2019 - 0.8% to 5.80%).

Interest income from cash in banks and cash equivalents for the year ended December 31, 2020 amounted to P540,702 and P2,979,371 (2019 - P576,620 and P1,167,141), respectively (Note 16).

Cash and cash equivalents are collectible within 12 months from reporting date.

3. Financial assets and liabilities for unit-linked contracts

On March 15, 2005 and June 17, 2005, the IC approved the Company's license to sell single-pay and regular-pay unit-linked insurance products, respectively. These are life insurance products that have policy benefits that are linked to investment funds. The payments received for these products, less charges for mortality and administration fees, are invested in segregated funds. The equity of each policyholder in the segregated fund is determined by assigning a number of units to each policyholder, corresponding to the net amount deposited in relation to the market value at the time of contribution. The value per unit may increase or decrease depending on the market value of the underlying assets of the corresponding segregated fund.

	Cash and cash equivalents	Investment securities carried at FVTPL	Accounts receivable	Accrued management fee	Seed capital (Note 4)	Net assets
At December 31, 2020						
Dollar Income and Growth Dividend Paying Fund	216,657,349	11,498,508,569	3,128,891	(4,630,906)	(1,034,014)	11,712,629,889
Peso-Hedged Asian Multi-Income Plus Dividend Paying Fund	278,394,170	4,854,656,972	1,353,140	(2,187,494)	(1,100,378)	5,131,116,410
Dollar Flexi Asia Bond Fund	20,548,273	3,443,006,824	-	(3,728,588)	(852,994)	3,458,973,515
Peso Multi-Sector Equity Fund	471,068	2,648,423,183	2,942,261	(1,741,181)	(933,798)	2,649,161,533
Dollar Global Equity Fund	469,329	2,357,597,365	49,838	(12,493,918)	(1,460,577)	2,344,162,037
Peso Philippine Equity Fund	33,911,541	1,994,685,305	1,362,183	(4,271,997)	(2,809,253)	2,022,877,779
Peso Optimized Dividend Equity Fund	541,967	1,565,526,138	461,826	(1,374,341)	(848,585)	1,564,307,005
Peso Balanced Growth Fund	757,310	1,386,302,010	6,608,962	(1,653,629)	(2,834,364)	1,389,180,289
Peso Fixed Income Fund	5,467,173	835,797,811	9,934,641	(3,623,653)	(2,659,999)	844,915,973
Peso-Hedged Global Sustainability Fund	19,495,545	824,441,322	-	(598,145)	(1,243,592)	842,095,130
Dollar Income and Growth Fund	12,018,092	648,996,749	-	(724,438)	(1,411,169)	658,879,234
Dollar Bond Fund	4,820,482	622,147,778	10,486,476	(2,040,013)	(2,286,047)	633,128,676
Peso Dynasty Equity Fund	867,394	601,890,857	1,147,275	(2,264,299)	(8,141,920)	593,499,307
Dollar Global Income Dividend Paying Fund	21,690,741	550,883,868	777,219	(357,351)	(980,160)	572,014,317
Global Treasures Peso Fund	46,970	437,322,051	-	(2,234,816)	(34,439,959)	400,694,246
Fixed Index Unit-Linked Fund	76,893	337,474,426	6,811,104	(1,857,682)	(1,556,894)	340,947,847
Dollar Flexi Asia Dividend-Paying Bond Fund	5,120,068	311,663,843	5,042,415	(423,299)	(1,037,337)	320,365,690
High Street Peso Fund	1,751,965	263,969,550	-	(209,454)	(24,969,531)	240,542,530
Peso-Hedged Diversified Income Dividend Paying Fund	2,231,172	48,945,641	-	(55,445)	(1,017,998)	50,103,370
Peso Money Market Fund	61,244	34,661,107	-	(7,256)	(1,126,435)	33,588,660
Peso Balanced Dividend-Paying Fund	28,694,422	395,183,111	2,318,324	(549,037)	(409,014,587)	16,632,233
	654,093,168	35,662,084,480	52,424,555	(47,026,942)	(501,759,591)	35,819,815,670

	Cash and cash equivalents	Investment securities carried at FVTPL	Accounts receivable	Accrued management fee	Seed capital (Note 4)	Net assets
At December 31, 2019						
Dollar Flexi Asia Dividend-Paying Bond Fund	37,505,633	3,453,221,548	-	(1,843,819)	(912,902)	3,487,970,460
Peso Multi Sector Equity Fund	74,185,275	2,796,789,638	89,160,378	(62,738,676)	(1,013,671)	2,896,382,944
Dollar Income and Growth Dividend-Paying Fund	74,378,808	2,701,144,734	5,203,340	(1,048,778)	(973,451)	2,778,704,653
Dollar Global Equity Fund	15,468,995	2,271,856,280	-	(3,933,401)	(1,345,622)	2,282,046,252
Peso Equity Fund	4,939	2,177,872,171	7,854,824	(7,893,922)	(3,105,861)	2,174,732,151
Peso Optimized Dividend Equity Fund	39,844,108	1,754,191,363	19,103,146	(9,170,284)	(864,207)	1,803,104,126
Peso Balanced Fund	1,123	1,461,538,286	11,720,162	(4,101,468)	(2,785,207)	1,466,372,896
Peso-Hedged Asian Multi-Income Plus Dividend-Paying Fund	32,255,725	980,104,386	3,956,427	(409,512)	(1,021,868)	1,014,885,158
Peso Fixed Income Fund	3,707	917,422,911	12,881,123	(6,613,258)	(2,453,646)	921,240,837
Dollar Fixed Income Fund	721	737,953,618	12,649,766	(3,273,524)	(2,275,930)	745,054,651
True North	10,751,596	663,733,264	-	(827,661)	(13,498,250)	660,158,949
Peso Dynasty Equity Fund	28,995,647	632,924,148	2,773,278	(8,019,647)	(9,309,654)	647,363,772
Dollar Income and Growth Fund	9,628,825	620,600,319	3,503,496	(1,119,844)	(1,236,254)	631,376,542
Global Treasures	779,819	427,802,787	-	(640,044)	(22,936,586)	405,005,976
Dollar Flexi Asia Bond Fund	6,032,596	320,299,572	19,451	(1,287,002)	(1,053,383)	324,011,234
Peso-Hedged Global Sustainability Fund	15,326,482	301,019,346	2,243,644	(100,426)	(1,077,181)	317,411,865
Fixed Index Unit-Linked Fund	4,955,618	299,775,308	6,544,801	(1,426,819)	(4,984,020)	304,864,888
High Street	6,063,635	302,063,775	-	(149,784)	(24,090,595)	283,887,031
Peso Money Market Fund	45,758	59,995,129	-	(6,672)	(1,121,560)	58,912,655
Peso Balanced Dividend-Paying Fund	447,700	472,292,002	2,441,518	(578,494)	(441,509,995)	33,092,731
	356,676,710	23,352,600,585	180,055,354	(115,183,035)	(537,569,843)	23,236,579,771

True North is Philippine Peso-denominated, single-pay, 5-year unit-linked life insurance plan that was launched on September 29, 2015 and matured on September 29, 2020. Total fund value paid out from the maturity of True North amounts to P713,710,183.

Dollar Income Optimizer is US Dollar-denominated, single-pay, 7-year unit-linked life insurance plan that was launched on November 28, 2012 and matured on November 28, 2019. Total fund value paid out from the maturity of Dollar Income Optimizer amounts to P977,345,838.

In 2020, the Company launched two additional open-ended funds. These are Dollar Global Income Dividend Paying Fund, which was launched on February 19, 2020, and Peso-Hedged Diversified Income Dividend Paying Fund, which was launched on August 3, 2020.

The Company launched four additional open-ended funds in 2019. These are Peso Balanced Dividend-Paying Fund, Fixed Index Unit-Linked Fund, Peso-Hedged Global Sustainability Fund, and Peso-Hedged Asian Multi-Income Plus Dividend Paying Fund. Peso Balanced Dividend-Paying Fund was launched on June 7, 2019, while Peso-Hedged Global Sustainability Fund was launched on July 24, 2019. Peso-Hedged Asian Multi Income Plus Dividend-Paying Fund was launched on October 4, 2019, while Fixed Index Unit-Linked Fund was launched on September 27, 2019.

The funds are valued regularly, and the value of each unit is equal to the market value of the segregated fund divided by the number of outstanding units of the fund. Total premium income included in the statements of income arising from the unit-linked products amounted to P854,206,085 and P673,732,114 in 2020 and 2019, respectively (Note 15). For the year ended December 31, 2020, referral and trust fees income from variable unit-linked (VUL) policies amount to P294,257,157 (2019 - P240,743,627) (Note 17).

Financial assets for unit-linked contracts have the same terms with its corresponding financial liability for unit-linked contracts (Note 28).

(a) *Cash and cash equivalents*

	2020	2019
Cash in banks		
Peso-denominated	304,269,834	48,316,083
Dollar-denominated	276,507,627	160,610,627
Cash equivalents		
Peso-denominated	68,499,000	147,750,000
Dollar-denominated	4,816,707	-
	654,093,168	356,676,710

(b) *Investment securities carried at FVTPL*

	2020	2019
Quoted equity securities		
Peso-denominated	7,519,665,786	9,544,360,195
Dollar-denominated	24,538,701,153	9,367,122,452
Equity-linked notes		
Peso-denominated	701,291,601	729,866,562
Dollar-denominated	-	663,733,264
Government debt securities		
Peso-denominated	1,232,494,844	1,420,624,625
Dollar-denominated	497,393,864	509,152,425
Private debt securities		
Peso-denominated	1,047,783,318	910,094,160
Dollar-denominated	124,753,914	207,646,902
	35,662,084,480	23,352,600,585

(c) *Accounts receivable*

	2020	2019
Accrued income	38,126,393	44,419,142
Other receivables	14,298,162	135,636,212
	52,424,555	180,055,354

Other receivables include subscription receivables and uncollected investment transactions as at year end.

(d) *Accrued management fee*

Management fees are calculated based on net asset value (NAV) as of latest pricing date. The management fees are deducted from the cash portion of the fund. In instances when the cash portion is depleted, and until the next coupon payment is received, management fees are accrued and are treated as payable in NAV valuation. When the next coupon payment is received and cash portion of the fund is replenished, accrued management fees are then deducted and paid to the Company.

(e) *Seed capital*

This pertains to the Company's investment in unit-linked funds which is lodged under Financial assets at fair value through profit or loss (Note 4). As at December 31, 2020, the Company owns 465,741,503 (2019 - 506,241,318) outstanding number of units with net asset value of P501,759,591 (2019 - P537,569,843).

4. Financial assets at fair value through profit or loss (“FVTPL”); Available-for-sale (“AFS”) financial assets; Held-to-maturity (“HTM”) investments

The Company’s financial assets at December 31 are summarized by the following measurement categories:

	2020	2019
Financial assets at FVTPL	788,372,304	913,868,007
AFS financial assets	13,388,789,611	7,593,116,484
HTM investments	-	3,447,573,117
	14,177,161,915	11,954,557,608

(a) Financial assets at FVTPL

The financial assets at FVTPL at December 31 consist of the following:

	Notes	2020	2019
Quoted equity securities		272,307,360	367,429,066
Investment in unit-linked funds	3		
Peso-denominated		492,697,277	516,274,051
Dollar-denominated		9,062,314	21,295,792
Derivative asset	23	14,305,353	8,869,098
		788,372,304	913,868,007

Quoted equity securities and derivative asset are denominated in Philippine Peso and Euro, respectively.

Details of net fair value gain on financial assets at FVTPL for the years ended December 31 are as follows:

		2020	2019
Fair value gain on:			
Quoted equity securities		9,516,367	1,569,300
Investment in unit-linked funds		25,299,022	26,086,525
Derivative asset	23	6,590,684	12,787,655
Realized gain on sale of financial assets at FVTPL		1,289,836	1,933,707
		42,695,909	42,377,187

Dividend income from quoted equity securities amounted to P21,067,302 and P53,397,934 in 2020 and 2019, respectively (Note 16).

(b) AFS financial assets

The AFS financial assets at December 31 consist of the following:

	2020	2019
Government debt securities		
Peso-denominated	7,927,549,687	3,190,746,321
Dollar-denominated	2,544,653,476	1,428,318,498
Private debt securities		
Peso-denominated	2,299,956,760	2,377,127,105
Dollar-denominated	556,549,688	537,844,560
Proprietary shares	60,080,000	59,080,000
	13,388,789,611	7,593,116,484

Details of the movements of AFS financial assets at December 31 are as follows:

	2020	2019
At January 1	7,593,116,484	7,695,069,058
Additions	1,849,111,525	1,074,449,990
Disposals	(815,299,944)	(1,181,148,205)
Reclassified from (to) HTM investments	3,400,927,581	(831,724,035)
Amortization of bond discount/premium, net	34,627,385	(11,447,228)
Fair value change recycled to profit or loss	(9,433,997)	(91,599,035)
Fair value change in other comprehensive income	1,482,004,579	1,042,188,336
Unrealized foreign exchange (losses)	(146,264,002)	(102,672,397)
At December 31	13,388,789,611	7,593,116,484

Proceeds from the disposals of AFS financial assets amount to P834,397,026 and P1,254,073,548 in 2020 and 2019, respectively. Gain on sale of AFS securities for the year ended December 31, 2020 amounts to P9,663,085 (2019 - loss of P18,673,692).

Interest income from AFS debt securities amounted to P420,101,045 and P434,341,252 in 2020 and 2019, respectively (Note 16).

Government debt securities valued at P319,935,520 and P165,591,748 as of December 31, 2020 and 2019, respectively, are deposited with the IC in accordance with the provisions of the Code for the benefit of policyholders and creditors of the Company. In January 2020, the Company has earmarked an additional P100,000,000, at face amount, of government debt securities to comply with the IC's mandatory requirement on minimum capital by 2020. These bonds were acquired on November 12, 2019 and will mature on January 24, 2039.

On July 31, 2019, the Company reclassified certain AFS financial assets at a carrying amount of P831,724,035 to HTM investments (Note 4.c). The Company intends to hold these investments until maturity in order to improve resiliency of the Company's solvency position. Reclassified securities are composed of long-dated bonds which have the highest impact on reducing solvency sensitivity.

Details of the movements in the reserve for fluctuation on AFS financial assets at December 31 follow:

	2020	2019
At January 1	593,964,398	(447,173,938)
Unrealized fair value gains	1,472,570,582	950,589,301
Tax effect	(150,000)	(1,050,000)
Fair value gains realized through profit or loss	9,433,997	91,599,035
At December 31	2,075,818,977	593,964,398

AFS debt securities of the Company carry coupon rates as follows:

	2020	2019
Government debt securities		
Peso-denominated	3.50% - 18.25%	2.80% - 14.60%
Dollar-denominated	2.65% - 10.65%	3.70% - 10.63%
Private debt securities		
Peso-denominated	0.00% - 6.88%	0.00% - 6.11%
Dollar-denominated	2.63% - 8.60%	2.63% - 7.39%

(c) *HTM investments*

The HTM investments at December 31 consist of the following:

	2020	2019
Government debt securities		
Peso-denominated	-	2,807,488,994
Dollar-denominated	-	640,084,123
	-	3,447,573,117

Details of the movements in HTM investments at December 31 are as follows:

	2020	2019
At January 1	3,447,573,117	1,265,550,049
Additions	-	1,238,540,000
Reclassification (to) from AFS financial assets	(3,400,927,581)	831,724,035
Amortization of bond discount/premium, net	(16,999,336)	135,454,308
Foreign exchange adjustments	(29,646,200)	(23,695,275)
At December 31	-	3,447,573,117

In 2020, the Company has reclassified all of its HTM investments at a carrying amount of P3,400,927,581 to AFS financial assets. The reclassification was made due to the accounting mismatch of assets and liabilities as determined by the Company's asset and liability matching policy. The mismatch significantly resulted from by the change in regulation introduced by the Insurance Commission on December 27, 2019, wherein the discounting of cash flows with duration of more than 20 years (insurance policy contract) has been changed from a 2 year moving average to 1 year moving average of the 20-year government bond yield rate. This change widened the gap in the Company's asset-liability matching strategy because of the increased sensitivity of liabilities to current market rates due to the shorter period of averaging discount rates.

Due to this reclassification, the Company's HTM portfolio has been deemed as tainted, in which the Company shall not be allowed to classify its investments as HTM for the years 2021 and 2022.

Interest income from HTM investments amounted to P224,819,537 and P154,872,537 in 2020 and 2019, respectively (Note 16).

The maturity profile of the Company's financial assets, based on contractual cash flows, as at December 31 is presented below:

	2020		2019	
	Within 12 months	Beyond 12 months	Within 12 months	Beyond 12 months
Financial assets at FVTPL				
Derivative assets	-	14,305,353	-	8,869,098
AFS financial assets				
Government debt securities	102,220,000	7,977,437,737	35,028,100	3,902,038,439
Private debt securities	61,144,500	2,845,543,500	107,280,050	2,934,697,500
HTM government securities	-	-	-	3,175,547,798
	163,364,500	10,837,286,590	142,308,150	10,021,152,835

5. Insurance receivables

The account at December 31 consists of:

	2020	2019
Premiums due and uncollected	52,597,309	46,360,025
Reinsurance recoverable on paid losses	20,605,115	26,822,749
	73,202,424	73,182,774

Premiums due and uncollected pertain to uncollected policyholder premiums within the grace period of 90 days.

Reinsurance recoverable on paid losses pertains to reinsured claims already settled by the Company but are not yet reimbursed by the reinsurers.

Insurance receivables are collectible within 12 months from reporting date.

6. Loans and receivables

The account at December 31 consists of:

	Note	2020	2019
Policy loans		312,464,990	277,968,545
Accrued income		174,294,946	152,496,945
Receivable from related parties	26	88,477,497	19,132,617
Due from unit-linked funds		57,705,004	45,543,508
Advances to employees and agents		53,206,185	44,334,924
Other receivables		4,506,220	2,211,385
		690,654,842	541,687,924

Policy loans pertain to loans granted to policyholders. The loan is granted with the cash surrender value of the policyholder's insurance policy as collateral. The interest rates on peso and dollar policy loans are 10% and 8%, respectively, in 2020 and 2019. Interest income from policy loans amounted to P27,589,775 and P23,257,094 in 2020 and 2019, respectively (Note 16).

Accrued income as at December 31 consists of the following:

	2020	2019
Interest income on:		
AFS financial assets	173,559,853	114,203,934
HTM investments	-	35,712,110
Cash equivalents	-	20,833
Dividend income	735,093	2,560,068
	174,294,946	152,496,945

Due from unit-linked funds pertain to the amount to be received by the Company from unit-linked funds as reimbursement for the settlement of withdrawals or surrenders made from unit-linked policies.

Receivable from related parties represent payments of employee benefits and travel and accommodation expenses which are reimbursable to related parties under common control.

Other receivables consist of advances to policyholders.

Loans and receivables are collectible within 12 months from reporting date.

7. Prepayments and deposits

The account at December 31 consists of:

	Note	2020	2019
Rental and other deposits	29	18,419,937	16,299,130
Prepaid rent	29	3,589,971	5,170,950
Prepayments to suppliers and service providers		11,616,423	2,544,563
		33,626,331	24,014,643

Included under "Rental and other deposit" is the bond requirement deposited for the appeal filed in the appellate court amounting to P7,169,566 as of December 31, 2020 and 2019 (Note 29).

Rental deposits are shown net of unearned interest income. The accretion of interest is reported in others under "Miscellaneous income" account (Note 18).

Prepayments to suppliers and service providers mainly include advance payment for employee's health and medical insurance.

Prepayments and deposits are expected to expire and recovered within 12 months after the reporting date.

8. Property and equipment, net

The roll forward analysis of this account for the years ended December 31 follows:

2020	Notes	Computer and office equipment	Leasehold improvements	Office premises	Furniture and fixtures	Transportation Equipment	Construction in progress	Total
Cost								
January 1		121,093,029	143,696,203	65,355,587	20,007,664	40,239,875	2,563,488	392,955,846
Additions		10,321,767	1,204,396	11,171,425	15,247	2,678,296	5,035,868	30,426,999
Disposals		(146,379)	-	(32,986,371)	-	(2,513,146)	-	(35,645,896)
		131,268,417	144,900,599	43,540,641	20,022,911	40,405,025	7,599,356	387,736,949
Accumulated depreciation and amortization								
January 1		88,376,408	59,295,536	26,253,308	10,830,492	22,669,183	-	207,424,927
Depreciation	22	18,425,776	26,843,777	26,866,483	3,841,952	7,097,049	-	83,075,037
Disposals		(91,029)	-	(32,986,371)	-	(1,683,843)	-	(34,761,243)
		106,711,155	86,139,313	20,133,420	14,672,444	28,082,389	-	255,738,721
Net book value		24,557,262	58,761,286	23,407,221	5,350,467	12,322,636	7,599,356	131,998,228

2019	Notes	Computer and office equipment	Leasehold improvements	Office premises	Furniture and fixtures	Transportation Equipment	Construction in progress	Total
Cost								
January 1		109,123,860	134,946,645	-	18,972,657	36,361,389	-	299,404,551
Adoption of PFRS 16	27.2.a	-	-	55,712,745	-	-	-	55,712,745
		109,123,860	134,946,645	55,712,745	18,972,657	36,361,389	-	355,117,296
Additions		19,013,829	42,979,988	10,188,673	1,035,007	5,571,248	2,563,488	81,352,233
Disposals		(154,660)	-	-	-	(1,692,762)	-	(1,847,422)
Reversals		(6,890,000)	(34,230,430)	-	-	-	-	(41,120,430)
Termination		-	-	(545,831)	-	-	-	(545,831)
		121,093,029	143,696,203	65,355,587	20,007,664	40,239,875	2,563,488	392,955,846
Accumulated depreciation and amortization								
January 1		70,735,712	35,374,489	-	7,098,577	16,013,300	-	129,222,078
Depreciation	22	17,696,946	23,921,047	26,400,262	3,731,915	7,405,637	-	79,155,807
Disposals		(56,250)	-	-	-	(749,754)	-	(806,004)
Termination		-	-	(146,954)	-	-	-	(146,954)
		88,376,408	59,295,536	26,253,308	10,830,492	22,669,183	-	207,424,927
Net book value		32,716,621	84,400,667	39,102,279	9,177,172	17,570,692	2,563,488	185,530,919

Additions to office premises in 2020 pertains to lease agreements covering branch offices entered by the Company. The inception of new lease agreements resulted recognition of additions to office premises and lease liabilities amounting to P11,171,425 and P11,171,425 (2019 - P10,188,673 and P10,191,453), respectively.

For the year ended December 31, 2020, certain lease contracts of the Company have expired. The cost and accumulated depreciation of the right-of-use assets related to these lease contracts each amounting to P32,986,371 were retired.

In 2020, the Company sold certain computer and office equipment and transportation equipment with a total proceeds of P1,167,535 (2019 - P458,870) which resulted to a gain on disposal of fixed assets amounting to P282,882 (2019 - loss of P582,548) and is presented under "Miscellaneous income" (Note 18).

Construction in progress (CIP) at December 31, 2020 pertains to leasehold improvements under construction. For the year ended December 31, 2019, the Company has terminated lease contract of its office space as the result of the management strategic decision to withdraw from the particular geographical area. The early termination resulted in a loss of P16,482 which is the net effect of the derecognition of the carrying amount of ROU asset of P398,877 and the corresponding lease liability of P382,395 (Note 13) and which is presented under "Miscellaneous income" (Note 18).

9. Other assets, net

The account at December 31 consists of:

	2020	2019
Software, net	214,430,236	95,932,530
Agents' provident fund	43,845,821	42,226,682
Creditable withholding tax	15,503,654	27,622,920
Deferred input VAT	4,520,682	6,527,842
Office supplies	5,098,125	5,718,200
Documentary stamp tax fund	507,519	267,302
Security fund	121,461	121,461
	284,027,498	178,416,937

The roll forward analysis of Software, net for the years ended December 31 follows:

	Note	Software	Intangible assets under development	Total
2020				
Cost				
January 1		105,915,178	64,633,611	170,548,789
Additions		3,731,595	137,238,104	140,969,699
Transfers		69,883,847	(69,883,847)	-
		179,530,620	131,987,868	311,518,488
Accumulated amortization				
January 1		74,616,259	-	74,616,259
Amortization	22	22,471,993	-	22,471,993
		97,088,252	-	97,088,252
Net book value		82,442,368	131,987,868	214,430,236
2019				
Cost				
January 1		140,852,691	16,370,993	157,223,684
Additions		11,258,932	48,262,618	59,521,550
Reversals		(46,196,445)	-	(46,196,445)
		105,915,178	64,633,611	170,548,789
Accumulated amortization				
January 1		63,879,887	-	63,879,887
Amortization	22	10,736,372	-	10,736,372
		74,616,259	-	74,616,259
Net book value		31,298,919	64,633,611	95,932,530

Software pertains to computer applications and system enhancements being used for the Company's overall operations. Intangible assets under development pertain to software that are yet to be completed as of reporting date.

Various system projects underwent development phase in 2020, in addition to systems launched in prior years that are continually developed. Transfers from intangible assets under development pertain to software which are completed and already available for use.

Agents' provident fund pertains to the assets held by the Company in a fiduciary capacity on behalf of its agents. The Company retains 5% of the agents' commissions and bonuses with a limit of P80,000 a year. The Company contributes to the fund an amount equivalent of what is retained from the agent. The related liability with respect to the fund is presented under "Accounts payable, accrued expenses, and provisions" (Note 13). In 2020, interest expense relating to the fund amounts to P823,563 (2019 - P107,401).

The security fund is maintained in compliance with Sections 365 and 367 of the Code. The amount of such fund is determined by and deposited with the IC to pay benefit claims against insolvent companies.

The Company's other assets, excluding software and agents' provident fund which are considered as non-current, are expected to be realized within 12 months after the reporting date.

10. Insurance provisions

The account at December 31 consists of:

	2020	2019
Aggregate reserves for life policies	12,083,059,112	10,019,340,918
Policyholders' dividends due and unpaid	313,887,359	308,699,178
Policy and contract claims payable	131,990,560	118,796,992
Provision for incurred but not reported (IBNR) claims	84,986,829	54,427,279
	12,613,923,860	10,501,264,367

(a) Aggregate reserves for life policies

Details of the aggregate reserves for life policies (including unearned charges for unit-linked policies) at December 31 follow:

	2020	2019
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	2,840,353,464	3,121,607,205
Partially fixed and guaranteed participating	9,095,687,739	6,803,667,801
Unit-linked (unearned cost of insurance)	147,017,909	94,065,912
Total aggregate reserves for life policies	12,083,059,112	10,019,340,918

The aggregate reserves for life policies at December 31 may be analyzed as follows:

	2020		2019	
	Insurance provisions	Net	Insurance provisions	Net
Aggregate reserves for:				
Ordinary life policies	11,822,096,027	11,822,096,027	9,816,183,478	9,816,183,478
Group life policies	113,945,176	113,945,176	109,091,528	109,091,528
Unit-linked policies	147,017,909	147,017,909	94,065,912	94,065,912
Total aggregate reserves for life policies	12,083,059,112	12,083,059,112	10,019,340,918	10,019,340,918

Details of the movements in aggregate reserves at December 31 are as follows:

	2020			2019		
	Insurance provisions	Reinsurers' share of insurance provisions	Net	Insurance provisions	Reinsurers' share of insurance provisions	Net
At January 1	10,019,340,918	-	10,019,340,918	7,590,177,372	6,538,254	7,583,639,118
Premiums received	1,476,813,495	32,364,224	1,444,449,271	2,352,106,149	29,666,685	2,322,439,464
Liability released for payments of death, maturities and surrender benefits and claims	(975,869,629)	(32,364,224)	(943,505,405)	(820,105,712)	(36,204,939)	(783,900,773)
OCI impact of interest for future periods	1,315,158,679	-	1,315,158,679	430,610,662	-	430,610,662
Exchange rate effect	(138,177,355)	-	(138,177,355)	(101,553,081)	-	(101,553,081)
Accretion of investment income	385,793,004	-	385,793,004	568,105,528	-	568,105,528
At December 31	12,083,059,112	-	12,083,059,112	10,019,340,918	-	10,019,340,918

The net change in aggregate reserves recorded in the statements of income follows:

	2020			2019		
	Insurance provisions	Reinsurers' share of insurance provisions	Net	Insurance provisions	Reinsurers' share of insurance provisions	Net
Ordinary life	2,005,912,550	-	2,005,912,550	2,438,370,216	(3,218)	2,438,373,434
Group life insurance	4,853,648	-	4,853,648	12,199,808	(6,535,036)	18,734,844
Unit-linked	52,951,997	-	52,951,997	(21,406,478)	-	(21,406,478)
Interest rate change	(1,700,951,683)	-	(1,700,951,683)	(998,716,190)	-	(998,716,190)
Foreign exchange revaluation	138,177,354	-	138,177,354	101,553,081	-	101,553,081
At December 31	500,943,866	-	500,943,866	1,532,000,437	(6,538,254)	1,538,538,691

Details of the movements in the remeasurement on aggregate reserves at December 31 are as follows:

	2020	2019
At January 1	(660,044,850)	338,671,340
Effect of remeasurement (losses) on aggregate reserves, net	(1,700,951,683)	(998,716,190)
	(2,360,996,533)	(660,044,850)

(b) Policyholders' dividends due and unpaid

Policyholder dividends pertain to actual dividends that have already been paid by the Company but not yet withdrawn by the policyholder. Unpaid dividends earn interest ranging from 2.00% to 3.75% in 2020 and 2019, which depends on the dividend accumulation rate declared by the Company and can be withdrawn in full at the policyholders' discretion. Accretion of interest on dividends due and unpaid amounts to P297,092,866 (2019 - P292,002,449) was recognized in Policyholder's dividends due and unpaid of insurance provisions.

(c) Policy and contract claims payable and provision for IBNR

The movements during the year in policy and contract claims payable and provision for IBNR follows:

	Note	2020	2019
At January 1		173,224,272	172,444,837
Arising during the year	19	136,145,923	183,173,604
Provision (reversal) of IBNR	19	30,559,549	(18,841,638)
Paid during the year	19	(122,952,355)	(163,552,532)
At December 31		216,977,389	173,224,271

11. Insurance contract liabilities - terms and assumptions

11.1 Life insurance contract liabilities

For life insurance contracts with fixed and guaranteed terms (including partially fixed and guaranteed terms), the Company determines assumptions in relation to future deaths, investment returns and future expenses at inception of the contracts. These assumptions are used for calculating the liabilities during the life of the contract. These assumptions are in compliance with statutory requirements.

11.2 Valuation methodology

The IC issued Circular Letter No. 2016-66 "Valuation for Life Insurance Policy Reserves" on December 28, 2016 which provides the valuation standards for life insurance policy reserves. The IC also issued IC Circular No. 2016-69 on the same day to lay out the full implementation requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework. Implementation of these circulars was effective starting January 1, 2017.

The more significant provisions of the CL 2016-66 and 69 include the following, among others:

- (i) Reserve for traditional life insurance policies to be valued, where appropriate, using Gross Premium Valuation (GPV) from Net Premium Valuation (NPV);
- (ii) Risk free discount rate to be used for all cash flows to determine the liability of a traditional insurance policy;
- (iii) Consideration of non-guaranteed benefits, expenses, mortality and lapse and/or persistency based on actual experience; and
- (iv) Fixed Margin for Adverse Deviation (MfAD) to be used subject to a minimum of Interest: +/- 10% of discount rate; Expenses: 10% of best estimate expenses and Other Assumptions but not limited to mortality, lapse and conversion: +/-10% of best estimate assumption; and
- (v) Use of a moving average of the 20-year government bond yield rate for the discounting of the insurance contract liability cash flows with duration of more than 20 years.

Reserves under the GPV method is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate. For this purpose, the expected future cash flows shall be determined using best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience. Best estimate assumptions include discount rates, decrements such as mortality, lapse, expenses, and non-guaranteed benefits. Under this new standard, reserves must include appropriate margins for adverse deviations in respect of the risks that arise under the insurance policy. The calculation of reserves must also be in accordance with the internationally accepted actuarial standards and must consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines (ASP).

11.3 Key assumptions

Assumptions used for product pricing are different from the assumptions used in calculating aggregate reserves for life policies. Assumptions used for aggregate reserve are based on past experience, current internal data and conditions and external market indices and benchmarking, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate and prudent estimates at the date of valuation, and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are also subject to the provisions of the Code and guidelines set by the Insurance Commission.

The key assumptions to which estimation of the aggregate reserves for life policies is particularly sensitive follows:

- *Mortality and morbidity*

The mortality and morbidity assumptions are based on rates that are appropriate to the nature of the risks covered based on the Company's actual experience as reviewed in the assumptions setting exercise.

- *Lapses and/or persistency rates*

Lapse and/or persistency rates reflective of the Company's actual experience are taken as the best estimate lapse and/or persistency assumption, with regard to changing Company practices and market conditions.

- *Expenses*

The expense assumptions are based on the Company's experience derived from its latest expense study.

- *Discount rates*

Discount rates relate to the time value of money. Discount rate assumptions are based on current observed rates in the market adjusted for default risk. The valuation interest rate assumptions are consistent with risk free rates as provided by IC.

The discount rates to be used for insurance contract liability cash flows beyond 20 years were determined using the one-year moving average of the 20-year government bond yield in accordance with IC Circular Letter 2020-98. Previously under IC Circular Letter 2018-75, the discount rates for these cash flows used the two-year moving average of the 20-year government bond yield rate. The change in methodology resulted in lower discount rates for December 31, 2019, which in turn resulted in additional insurance provisions amounting to P388 million.

The assumptions are reviewed and revised at each reporting date. A decrease in discount rates would result in remeasurement loss on life insurance reserves.

11.4 Sensitivity tests

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on income and equity.

The sensitivity in the key assumptions, inclusive of MfAD, being monitored by the Company is presented below:

	Change in assumption	Impact on income before income tax and equity Increase/(decrease)	
		2020	2019
Mortality	+10%	(35,088,146)	(22,847,498)
	-10%	35,915,216	22,968,295
Interest rate	+100 bps	1,179,763,084	841,108,644
	-100 bps	(1,452,255,908)	(1,138,424,384)
Expense	+10%	(68,570,620)	(42,530,775)
	-10%	68,543,122	42,323,502
Lapse and/or persistency	+10%	(95,335,099)	(34,778,770)
	-10%	90,030,174	33,211,012
Morbidity	+10%	(1,527,394)	-

11.5 Reinsurance - assumptions and methods

The Company cedes insurance risk in the normal course of business. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Reinsured claims already settled by the Company but are not yet reimbursed by the reinsurers are presented as part of "Insurance receivables" in the assets section of the statement of financial position.

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

12. Premium deposit fund

This account pertains to excess payments received by the Company from the policyholders against contractual premium due. The excess payment could be applied to any future unpaid premiums. The accumulated fund shall not exceed the total future premium payments under the policy. As at December 31, 2020 premium deposit fund amounted to P302,912,612 (2019 - P320,820,633).

The fund bears interest at rates ranging from 1.50% to 2.50% in 2020 and 2019. Interest expense of the Company charged against statement of income amounted to P5,992,364 and P9,382,120 in 2020 and 2019, respectively.

13. Accounts payable, accrued expenses, and provisions

The account at December 31 consists of:

	Notes	2020	2019
Accrued expenses	20, 22, 23	630,312,415	407,694,869
Premium holding account		494,595,007	110,448,562
Accounts payable		321,349,868	253,967,761
Due to unit-linked fund		109,688,405	1,033,892
Payable to policyholders		35,015,704	210,726,670
Lease liability		23,254,149	34,630,168
Taxes payable		19,628,651	22,999,814
Others		87,856,605	171,158,274
		1,721,700,804	1,212,660,010

Accrued expenses represent accruals for employee salaries and benefits and agents' commissions which are due to be settled within one year and the estimated amount vested for agents' provident fund. Premium holding account pertains to advance payment from unissued policies.

Accounts payable pertains to short-term outstanding payables to Social Security System, Pag-ibig and Philhealth which are due to be settled within one year. Stale checks for the period are also included in this account.

Payable to policyholders pertain to endowment payments which are due at anniversary dates.

Due to unit-linked fund pertains to the investment portion of premiums received from the policyholders that are yet to be invested in unit-linked funds.

Following the adoption of PFRS 16, the Company has recognized a lease liability which was measured at the present value of the remaining lease payments using an incremental borrowing rate at initial recognition.

The movement in the lease liability at December 31, 2020 is as follows:

	Notes	2020	2019
As at January 1	28	34,630,168	51,665,717
Principal and interest payments	28	(23,876,882)	(29,442,985)
Non-cash changes			
Additions during the year	8	11,171,425	10,191,453
Termination of lease contract	8	-	(382,395)
Interest expense	22,29	1,329,438	2,598,378
As at December 31		23,254,149	34,630,168

Taxes payable pertains to all taxes that are payable by the Company which includes premium taxes and withholding taxes. These are expected to be settled within 12 months after the reporting date.

Others pertains to unallocated payment of policyholders which can be withdrawn anytime.

14. Capital stock; Contingency surplus

(a) Capital stock

The account at December 31, 2020 and 2019 consists of:

	No. of Shares	Amount
Common shares - P10,000 par value		
Authorized	25,000	250,000,000
Issued and outstanding		
At beginning of the year	25,000	250,000,000
Issuances during the year	-	-
At end of the year	25,000	250,000,000

(b) Contingency surplus

The Company received additional capital contribution to cover the Company's capital requirements as required by the IC. This amounts to P1,300,000,000 as at December 31, 2020 and 2019.

15. Net insurance premiums

Details of the net insurance premiums based on product type for the years ended December 31 are as follows:

	Note	2020	2019
Gross premiums			
Ordinary life insurance		1,078,423,884	1,983,189,783
Group life insurance		179,997,990	161,597,111
Unit-linked	3	15,393,022,880	8,002,947,595
Total gross premiums on insurance contracts		16,651,444,754	10,147,734,489
Premiums allocated to unit-linked insurance investment funds	3	(14,538,816,795)	(7,329,215,481)
		2,112,627,959	2,818,519,008

Reinsurers' share of gross premiums on insurance contracts for the years ended December 31 consists of:

	2020	2019
Reinsurers' share of gross premiums on insurance contracts		
Ordinary life insurance	43,644,594	25,082,480
Group life insurance	3,113,741	4,584,205
	46,758,335	29,666,685

16. Investment income

The sources of investment income for the years ended December 31 consist of:

	Notes	2020	2019
Interest income on:			
AFS financial assets	4	420,101,045	434,341,252
HTM investments	4	224,819,537	154,872,537
Policy loans	6	27,589,775	23,257,094
Cash equivalents	2	2,979,371	1,167,141
Cash in banks	2	540,702	576,620
Dividend income	4	21,067,302	53,397,934
		697,097,732	667,612,578

17. Referral and trust fees

Referral and trust fees pertain to fund management income earned from policyholders of unit-linked insurance policies for management of unit-linked funds. The Company used rates ranging from 0.50% to 2.20% in 2020 (2019 - 0.50% to 1.75%).

18. Miscellaneous income

Miscellaneous income for the years ended December 31 consists of:

	2020	2019
Marketing management	7,892,606	9,997,933
Reinstatement charges	942,128	1,081,094
Gain (Loss) on disposal of fixed assets	282,882	(582,548)
Others	143,157	1,437,688
	9,260,773	11,934,167

Marketing management income pertain to charges to the Parent Company at 5% mark-up for the costs incurred by the Company in relation to marketing management activities.

Others consist of interest from cash and cash equivalents and interest from advances to employees and agents.

19. Claims and policyholder benefits

The net insurance contract benefits and claims for the years ended December 31 consist of:

	2020	2019
Gross life insurance contract benefits and claims:		
Ordinary life insurance	441,275,033	497,702,980
Group life insurance	135,101,523	139,213,978
Unit-linked	10,401,055	51,682,235
	586,777,611	688,599,193
Reinsurers' share of gross life insurance contract benefits and claims on group life insurance	(20,605,115)	(26,822,749)
	566,172,496	661,776,444

The breakdown of the net insurance contract benefits and claims follows:

	Note	2020	2019
Policyholder benefits		409,074,230	458,321,484
Claims and other benefits	10	136,145,923	183,173,604
Dividends to policyholders		20,952,343	20,281,356
		566,172,496	661,776,444

Changes in the provision for IBNR amounts to P30,559,549 for the period ended December 31, 2020 (2019 - reversal of P18,841,638) (Note 10).

The breakdown of the net insurance contract benefits and claims paid follow:

	Note	2020	2019
Policyholder benefits		483,696,915	415,576,717
Claims and other benefits	10	122,952,355	163,552,532
Dividends to policyholders		15,764,162	17,741,950
		622,413,432	596,871,199

Details of the net change in aggregate reserves are presented in Note 10.

20. Commissions and agency-related compensation

Details of the account for the years ended December 31 are as follows:

	2020	2019
Commissions and bonuses	557,334,129	505,708,886
Service fee	264,753,573	149,739,529
	822,087,702	655,448,415

Commissions and bonuses pertain to the commission expense incurred for approved and issued policy contracts provided by the agents. Commission overrides are paid to managers based on the production made by the agents under them and bonuses are commissions granted to sales force after meeting certain criteria or conditions.

Service fees pertain to the fees incurred in exchange for referrals and amount paid to officers or non-officers of PNB/PNBSB in return of premiums written.

21. Taxes and licenses

Details of the account for the years ended December 31 are as follows:

	2020	2019
Premium tax	14,349,117	39,889,061
Documentary stamp tax	1,958,563	2,620,483
	16,307,680	42,509,544

Premium tax is a government tax levied on premium income derived by the Company from selling insurance coverage to its clients.

Documentary stamp tax pertains to stamp duties paid for all documents of issued policies.

22. General and administrative expenses

Details of the account for the years ended December 31 are as follows:

	Notes	2020	2019
Salaries, wages and employee benefits	23	293,505,999	380,239,733
Depreciation and amortization	8,9	105,547,030	89,892,179
Meetings and marketing campaigns		93,232,237	135,204,901
Equipment maintenance		88,120,682	55,419,014
Professional fees		56,554,927	99,464,123
Communication		24,215,957	20,151,155
Utilities		19,110,346	22,684,199
Taxes and licenses		15,842,754	20,137,107
Rent	29	14,470,841	7,846,549
Travel		5,786,253	25,638,890
Recruitment		4,918,972	24,136,468
Printing and supplies		3,865,201	11,681,401
Membership fees		3,525,887	5,578,951
Interest expenses	13,29	1,329,438	2,598,378
Entertainment, amusement and recreation		619,945	8,752,208
Others		34,045,803	28,235,097
		<u>764,692,272</u>	<u>937,660,353</u>

Others pertain to bank charges, company gifts, temporary help, and miscellaneous losses.

23. Salaries, wages and employee benefits

Details of the account for the years ended December 31 are as follows:

	Note	2020	2019
Salaries and wages		356,142,769	381,720,947
Employee assistance		22,222,611	31,871,848
Net pension expense	24	17,206,155	11,601,840
Net increase in restricted stock units		9,893,912	14,710,168
Social security costs		6,593,269	5,608,676
Staff subsidy		8,191,316	9,569,578
Staff meetings and activities		8,810,595	15,264,597
Life and health insurance		6,957,419	8,707,932
Other benefits		11,853,673	6,121,547
		<u>447,871,719</u>	<u>485,177,133</u>

Other benefits include sick leave conversion and employee rewards.

The total salaries, wages and employee benefits recorded as part of "Insurance expenses" and "General and administrative expenses" in the statements of income follows:

	Note	2020	2019
Insurance expenses		154,365,720	104,937,400
General and administrative expenses	22	293,505,999	380,239,733
<u>Total salaries, wages and employee benefits</u>		<u>447,871,719</u>	<u>485,177,133</u>

Restricted Stock Units ("RSUs")

Allianz SE, the Company's parent, has incentive compensation plan granting its qualified employees and employees of its subsidiaries worldwide share-based compensation under its Allianz Equity Incentive plan (the "Plan"). The Plan obligates Allianz SE to pay in cash the average closing price of Allianz SE share on the last day of the vesting period and the prior nine trading days, or to convert one RSU into one Allianz SE share. The payout is capped at 200% share price above the grant price.

The RSUs under the Plan are subject to four years of vesting period and Allianz SE plans to settle in cash. The RSUs are accounted for as cash-settled.

Starting 2016, one of the Company's employees has been covered by the Plan. Allianz SE directly bills the Company for the share of the employee in the fund, the related derivative, and the corresponding changes in fair value. The Company expenses the fair market value of the RSU, as determined on the grant date, ratably over the period during which the restrictions lapse. Compensation billed by Allianz SE to the Company in relation to the RSU under this Plan recorded under "General and administrative expense" account amounted to P9,893,912 in 2020 (2019 - P14,710,168 and 2019) (Notes 22 and 23).

Provisions in relation to the RSU recognized under the "Accounts payable, accrued expenses, and provisions" account in the Company's statement of financial position amounted to P74,569,739 and P64,675,827 as of December 31, 2020 and 2019, respectively (Note 13).

Reconciliation of outstanding grants as of December 31 follows:

	2020	2019
January 1	870	3,767
Granted	577	1,294
Exercise (Release)	-	(4,191)
December 31	1,447	870

The RSUs under the Plan are valued based on the fair value after subtracting the net present value of expected future dividend payments until maturity as well as the fair value of the cap from the prevailing share price as of valuation date. The cap is valued as a European short call option, using prevailing market data as of the valuation date. The table below lists the inputs to the model used for the years ended December 31:

	2020	2019
Share price	€ 220.65	€187.59
Dividend yield	4.70%	5.20%
Expected volatility	15.80%	19.30%
Risk-free interest rate	(0.50%)	(0.20%)

The expected volatility reflects the assumption that the implied volatility applied to RSU under the Plan is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the RSU were incorporated into the measurement of fair value.

Derivative asset in relation to the RSU

In 2016, the Company and Allianz SE entered into an arrangement whereby the Company shall collect from or pay to the latter depending on the fair value of the assets underlying the hedging arrangement. At any inception of a new RSU under the Plan, the Company agrees to buy from Allianz SE and the latter agrees to sell to the Company the same number of rights under this arrangement ("Rights"). The purchase price corresponds to the fair value of the Rights at the grant date. As a matter of principle, the fair value of the Rights is at all times identical to the fair value of RSU under the Plan. The number of Rights is continuously adjusted to reflect exercises, forfeitures, cancellations, and transfers of RSU within the Allianz group.

Allianz SE directly bills the Company for the fair value of the Rights. As of each reporting day as determined by Allianz SE, the net receivable or liability position between the Company and Allianz SE shall be settled in cash in terms of Euros.

The fair value of the Rights, recognized under "Derivative asset" account as of December 31, 2020 and 2019 amounted to P14,305,353 and P8,869,098, respectively (Note 4). The increase in fair value recorded under "Net fair value (loss) gain on financial assets at FVTPL" amounted to P6,590,684 and P12,787,655 in 2020 and 2019, respectively (Note 4). The fair value of the Rights, as determined by Allianz SE, is based on best estimate for the value of a hedge right. The fair value of Rights is considered to be Level 2.

24. Employee benefits

The Company has a non-contributory defined benefit pension plan, covering substantially all of its employees, which requires contribution to be made to an administered fund. The Company's qualified retirement fund is administered by the PNB.

The following tables summarize the components of net benefit expense recognized in the statement of comprehensive income and the amounts recognized in the statement of financial position.

(a) Net pension expense

	Note	2020	2019
Current service cost		16,407,968	11,472,339
Net interest cost		798,187	129,501
Net pension expense	23	17,206,155	11,601,840

(b) Remeasurement adjustments

	2020	2019
Actuarial loss (gain) on defined benefit obligation	21,146,756	7,842,434
Actuarial (gain) loss on plan assets	716,918	(394,968)
Remeasurement losses (gains) for the year	21,863,674	7,447,466
Deferred income tax effect	(6,559,102)	(2,234,240)
Remeasurement losses (gains), net of tax	15,304,572	5,213,226

(c) Net pension liability

	2020	2019
Present value of defined benefit obligation	121,901,877	80,972,900
Fair value of plan assets	(67,340,981)	(64,847,927)
Net pension liability	54,560,896	16,124,973

Changes in the present value of defined benefit obligation follow:

	2020	2019
Defined benefit obligation, beginning of year	80,972,900	61,762,081
Current service cost	16,407,968	11,472,339
Interest cost	4,008,159	4,570,394
Benefits paid	(633,906)	(4,674,348)
Remeasurements in other comprehensive income		
Actuarial changes arising from changes in financial assumptions	22,164,440	14,609,213
Actuarial changes arising from experience adjustments	(1,017,684)	(6,766,779)
Defined benefit obligation, end of year	121,901,877	80,972,900

Non-vested benefits for the year ending December 31, 2020 amounts to P121,901,877 (2019 - 80,972,900).

Changes in the fair value of plan assets follow:

	2020	2019
Fair value of plan assets, beginning of year	64,847,927	60,012,066
Contribution	633,906	4,674,348
Interest income	3,209,972	4,440,893
Benefits paid	(633,906)	(4,674,348)
Actuarial (loss) gain on plan asset	(716,918)	394,968
Fair value of plan assets, end of year	67,340,981	64,847,927

Expected contributions to the retirement benefit plan for the year ending December 31, 2020 amounts to P18.00 million (2019 - P16.00 million).

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

	2020	2019
Discount rate	3.59%	4.95%
Rate of salary increases	6.00%	6.00%

Mortality table and disability table used in the valuation in 2020 and 2019 are the 1994 Group Annuity Table and the 1952 Disability Table, respectively.

Employee turnover was assumed, based on the result of the most recent experience study with margins for fluctuations, as follows:

- For employees with less than 1 year of service: 10.0%
- For employees with 1 or more years of service:

Age	Rate (%)
20	10.00%
30	7.50%
40	5.00%
50	2.50%
60	100%

The Company applies asset-liability matching techniques to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement fund. The Company has established a formal Asset-Liability Management Study conducted by the Company's actuary every three years to capture changes in the demographic profile changes of the employees and changes in the economic environment affecting the amounts of maturing obligations and rates of returns of available investment instruments. In the study, expected benefit payments are projected and classified into short-term, medium term or long-term liabilities. Investment instruments that would match the liabilities are identified. The investment mixes that would yield the maximum returns at certain risk levels are identified using Markowitz Portfolio Theory (MPT) or the Mean Variance Framework.

The following is the distribution of the Company's plan assets stated at fair value as of December 31:

	2020	2019
Cash	2,002,058	2,868
Fixed-income securities	38,137,066	40,267,559
Unit investment trust funds	21,900,228	18,381,262
Equity securities	5,476,260	6,095,846
Accrued interest	270,392	299,400
Other assets	8,059	17,642
Total assets	67,794,063	65,064,577
Liabilities	453,082	216,650
Net assets	67,340,981	64,847,927

Pension plan assets of the retirement plan include investments in PNB's unit investment trust funds amounting to P21.90 million at December 31, 2020 (2019 - P18.38 million). Unrealized loss coming from these investments amount to P0.37 million in 2020 (2019 - P0.20 million).

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

Impact on defined benefit obligation			
2020	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 0.50%	(8,240,210)	9,020,138
Salary increase rate	+/- 0.25%	4,063,898	(3,912,213)
Turnover rate	+/- 10.00%	(6,137,227)	6,137,227

Impact on defined benefit obligation			
2019	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 0.50%	(5,471,959)	5,980,829
Salary increase rate	+/- 0.25%	2,886,858	(2,775,611)
Turnover rate	+/- 10.00%	(4,566,367)	4,566,367

The maturity analysis of the undiscounted benefit payments as of December 31 based on normal retirements (retirement age of 60) is as follows:

	Percentage to pension obligation	
	2020	2019
Date of retirement		
Payable in the next 5 years	4%	2%
Payable in the next 6 - 10 years	26%	26%
Payable beyond 10 years	70%	72%

The average duration of the defined benefit obligation as of December 31, 2020 and 2019 is 17 years. Risks typically associated with defined benefit plans are biometric risks such as longevity, disability, and death as well as economic risks such as interest rates, inflation and compensation increases. New plans are primarily based on contributions and may include, in some cases, guarantees such as the preservation of contributions or minimum interest rates.

25. Income tax

Provision for income tax for the years ended December 31 follows:

	2020	2019
Current		
Final tax	98,610,991	81,691,599
Minimum corporate income tax	11,994,297	8,933,588
Deferred	(37,739,755)	(263,570)
	72,865,533	90,361,617

Details of net deferred income tax recognized at December are as follows:

	Note	2020	2019
Tax effects of:			
Accrued expenses		152,971,763	110,455,902
Unamortized excess contribution		4,539,841	5,392,233
Net pension liability		20,211,859	13,652,757
Net increase in restricted stock units		2,968,174	4,413,051
Unrealized foreign exchange loss		-	1,277,866
Deferred tax assets	27	180,691,637	135,191,809
Tax effects of:			
Unrealized gain on derivative asset		(1,977,205)	(3,836,297)
Unrealized fair value changes in fluctuation of AFS		(6,120,000)	(5,970,000)
Unrealized foreign exchange gain		(3,060,063)	-
Deferred tax liabilities		(11,157,268)	(9,806,297)
Deferred tax assets, net		169,534,369	125,385,512

Details of the movements in net deferred income tax assets at December 31 follow:

	2020	2019
At January 1	125,385,512	123,937,702
Amounts recognized in statement of income	37,739,755	263,570
Amounts recognized in other comprehensive income	6,409,102	1,184,240
At December 31	169,534,369	125,385,512

Deferred income tax assets were not recognized on the following items as it is not expected that sufficient future taxable profits will be available against which these items can be utilized prior to their expiration:

	2020	2019
Net operating losses carry over	1,131,548,123	949,201,363
Minimum corporate income tax	29,751,786	27,089,088

Details of the Company's NOLCO at December 31 are as follows:

Year of Payment	Year of Expiry	2020	2019
2020	2023	197,885,950	-
2019	2022	663,486,222	663,486,222
2018	2021	270,175,951	270,175,951
2017	2020	15,539,190	15,539,190
2016	2019	-	110,389,187
		1,147,087,313	1,059,590,550
Expired NOLCO		(15,539,190)	(110,389,187)
		1,131,548,123	949,201,363

Details of the Company's MCIT at December 31 are as follows:

Year of Payment	Year of Expiry	2020	2019
2020	2023	11,994,297	-
2019	2022	8,933,588	8,933,588
2018	2021	8,823,901	8,823,901
2017	2020	9,331,599	9,331,599
2016	2019	-	4,248,604
		39,083,385	31,337,692
Expired MCIT		(9,331,599)	(4,248,604)
		29,751,786	27,089,088

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

	2020	2019
Statutory income tax rate	30.00	30.00
Add (deduct) tax effects of:		
Interest income subjected to final tax	(18.83)	(20.95)
Income exempt from tax	(4.93)	(8.22)
Temporary deductible differences for which no deferred tax asset is recognized	4.58	4.58
Nondeductible expenses	17.01	100.92
Effective income tax rate	27.83	106.33

26. Related party transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form. No provision for impairment has been made for amounts owed by related parties since collection is deemed to be reasonably certain.

Significant transactions with related parties follow:

As at and for the year ended December 31, 2020:

	Transactions	Outstanding balances	Terms and conditions
Parent Company			
Allianz SE			
Net increase in RSU, including fair value adjustments (Note 23)	9,893,912	74,569,739	- Noninterest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Net increase in derivative asset in relation to RSU, including fair value adjustment (Note 23)	5,436,255	14,305,353	- Noninterest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Significant investor			
PNB			
Savings and current accounts	261,305,579	261,305,579	- Interest-bearing at 0.10% - Unsecured and unguaranteed
Time deposits (Note 2)	50,000,000	-	- Interest-bearing at 3.00% - Unsecured and unguaranteed
Retirement fund	633,906	67,340,981	- Refer to Note 24
Referral fees	253,905,153	78,238,549	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Rent	23,867,117	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
Premiums	5,907,317	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Claims	11,330,385	4,463,212	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Entities under common control			
Allianz Investment Management Singapore (AIMS)			
Investment Management Fees	7,191,429	1,852,036	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross

(forward)

Allianz Technology (Thailand) Co. Ltd.			
EDP-Software	3,871,711		- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Software Maintenance costs	16,853,134		- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Technology Singapore			
Software Maintenance costs	13,519,762		- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Asia Pacific			
Consultancy Fee	36,524,134	21,582,832	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
	21,832,752	38,573,138	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Reinsurance Asia Pacific (ARAP)			
Reinsurance	17,519,854	8,561,134	- 90-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Other related parties			
PNB Savings			
Savings and current accounts	12,572,720	12,572,720	- Interest-bearing at 0.10% - Unsecured and unguaranteed
Referral Fees	8,386,616	1,417,824	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Premiums	31,980,110		- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Claims	10,371,436	4,344,830	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Key management compensation			
Salaries and other short-term benefits	79,440,502		- Refer to Note 13 for RSU and Note 23 for salaries and other short-term benefits, relocation benefits, and retirement cost.
RSUs	9,893,912	74,569,739	
Relocation benefits	-	-	
Retirement cost	3,923,102	-	
Total	874,328,046	625,124,528	

As at and for the year ended December 31, 2019:

	Transactions	Outstanding balances	Terms and conditions
Parent Company			
Allianz SE			
Net increase in RSU, including fair value adjustments (Note 23)	14,710,168	64,675,827	- Noninterest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Net increase in derivative asset in relation to RSU, including fair value adjustment (Note 23)	(23,600,214)	8,869,098	- Noninterest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Significant investor			
PNB			
Savings and current accounts	495,703,313	495,703,313	- Interest-bearing at 0.10% - Unsecured and unguaranteed
Time deposits (Note 2)	50,000,000	50,000,000	- Interest-bearing at 3.00% - Unsecured and unguaranteed
Retirement fund	4,674,348	64,847,927	- Refer to Note 24
Referral fees	139,394,855	36,626,047	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross

(forward)

	Transactions	Outstanding balances	Terms and conditions
Principal payments	19,427,578	-	- 30-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Premiums	26,370,993	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Claims	27,682,802	13,652,498	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Entities under common control			
Allianz Investment Management Singapore (AIMS)			
Investment Management Fees	2,868,483	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Technology (Thailand) Co. Ltd.			
Software Maintenance costs	3,207,900	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Asia Pacific			
Consultancy Fee	69,188,449	69,188,449	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Marketing Management	16,740,386	16,740,386	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Reinsurance Asia Pacific (ARAP)			
Reinsurance	(3,962,596)	(498,724)	- 90-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Other related parties			
PNB Savings			
Savings and current accounts	13,401,539	13,401,539	- Interest-bearing at 0.10% - Unsecured and unguaranteed
Referral Fees	10,065,327	572,900	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Premiums	246,151,635	9,766,440	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Claims	340,881	1,529,936	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
PNB Capital and Investment Corporation			
Premiums	10,730	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Japan PNB Finance and Leasing Corporation			
Premiums	73,648	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
PNB General Insurers, Inc.			
Premiums	251,909	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Claims	250,000	-	- Noninterest-bearing - Due and demandable, settled in cash at gross - Unsecured and unguaranteed
PNB Securities, Inc.			
Premiums	7,955	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed

(forward)

<i>Key management compensation</i>			
Salaries and other short-term benefits	99,719,331	-	Refer to Note 13 for RSU and Note 23 for salaries and other short-term benefits, relocation benefits, and retirement cost.
RSUs	1,922,512	16,815,703	
Relocation benefits	299,324	-	
Retirement cost	3,760,845	-	
Total	1,201,921,715	845,150,953	

27. Significant accounting judgments and estimates

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

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

Judgments

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

HTM investments (Note 4)

The Company classifies non-derivative investments with fixed or determinable payments and fixed maturities as HTM investments. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than in certain specific circumstances (for example sales that are so close to maturity) it will be required to reclassify the entire portfolio as AFS financial assets. The investment would therefore be measured at fair value and not at amortized cost. There are no HTM investments outstanding as of December 31, 2020 (2019 - P3,447,573,117) (Note 4).

AFS investments (Note 4)

The Company follows the guidance of PAS 39 to determine when an AFS financial asset is impaired. The assessment is based on whether the impairment is significant and prolonged. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the issuer, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Management believes, based on its assessment, that AFS financial assets are fully recoverable and not considered impaired as at December 31, 2020 and 2019. No allowance for impairment of AFS financial assets has been assessed and recognized for 2020 and 2019.

Financial assets and liabilities for unit-linked contracts (Note 3)

Considering the Company's level of ownership and varying terms and conditions of each unit-linked investment fund, the classification of such as structured entities is subject to significant judgement. As a general rule, the management of relevant activities of an investment fund is delegated to the fund manager via asset management agreements. In contrast, influence from investors on the relevant activities of investment funds is usually either precluded by legal or regulatory provisions or not deemed substantial.

These investment funds are generally subject to stringent regulatory requirements from financial. Comprehensive regulation of funds protects fund investors and also helps to limit investment risk. These mechanisms result in a legal set-up of funds, agreed and accepted as structured entities under PFRS 12.

Income mainly includes distribution from the funds as well as realized gains and losses from disposals.

Investment funds classified as structured entities based on PFRS 12 pertain to investment in unit-linked funds. The details of these funds are disclosed in Note 3.

Structured notes (Note 28)

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

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

As at December 31, 2020, investments in structured notes amount to P701,291,601 (2019 - P1,393,599,826). Sensitivity information are further disclosed in Note 28.

Recognition of deferred tax assets (Note 25)

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings, and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

Gross deferred tax assets recognized amounted to P180,691,637 and P135,191,809 as of December 31, 2020 and 2019, respectively (Note 25). As at December 31, 2020 and 2019, the Company has unrecognized deferred tax assets amounting to P1,161,299,909 and P976,290,451, respectively. The unrecognized deferred tax assets comprised both NOLCO and MCIT.

Estimates

Aggregate reserves for life policies (Note 10)

Reserves for traditional life insurance policies are valued using gross premium valuation (GPV) method. GPV requires the use of best estimate assumptions include discount rates, decrements such as mortality, lapse, expenses, non-guaranteed benefits and a margin for adverse deviations in respect of the risks that arise under the insurance policy (Note 11).

The carrying value of aggregate reserves for life policies, shown as part of the "Insurance provisions" account in the statements of financial position amounted to P12,083,059,112 and P10,019,340,918 as of December 31, 2020 and 2019, respectively (Note 10).

Contingencies (note 3)

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon the analysis of potential results (Note 3).

28. Capital management and management of insurance and financial risks

Although life insurance companies are in the business of taking risks, the Company limits its risk exposure only to measurable and quantifiable risks. The main objective of the Company's risk management policies is to ensure that the Company remains financially viable and capable in paying its liabilities. There are many risks associated in the life insurance business such as insurance risks, investment risks, and other business risks. These risks are managed separately to ensure that the Company is not exposed to risks that are unnecessary or risks with no commensurate expected benefits or returns.

(a) Governance framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels. The risk management committee performs procedures to identify various risks. The result of the procedures is reported to the BOD and necessary actions are taken to mitigate the risks identified.

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

(b) Regulatory framework

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

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

(i) Regulatory capital

The Company manages its capital in accordance with the mandates of the IC being its regulator. Under the requirements of the IC and the Insurance Code, the Company should meet the minimum levels set for the following capital requirements: Minimum Statutory Net Worth and Paid-up Capital, and RBC. The Company regularly monitors its compliance with these capital requirements. Further, government bonds amounting to at least 25% of the Minimum Paid-up Capital are free from liens and encumbrances, and deposited under the IC, in accordance with Section 203 of the Code (Note 4).

Fixed capitalization requirements

On August 5, 2013, the President of the Philippines approved the New Insurance Code which provides the new capitalization requirements of all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

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

On January 13, 2015, the IC issued IC CL No. 2015-02-A which supersedes IC CL No. 22-2008 was issued to ensure compliance with the minimum capitalization and net worth requirements set in Sections 194, 197, 200 and 289 of Republic Act No. 10607.

As of December 31, 2020 and 2019, the Company's statutory net worth amounted to P1,059,263,254 and P1,567,929,899, respectively.

RBC requirement

Insurance Memorandum Circular (IMC) No. 6-2006 provides for the risk-based capital framework for the life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as total available capital divided by the RBC requirement. Total available capital shall include the company's paid-up capital, contributed and contingency surplus, unassigned surplus, and other items specified by regulation. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC. The RBC requirement is the amount of required capital computed by taking into consideration the following major risks enumerated by IC guidelines; asset default risk, insurance pricing risk, interest rate risk and general business risk.

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

Consolidated compliance framework - IMC 10-2006 integrated the compliance standards for the fixed capitalization and risk-based capital framework.

Risk Based Capital 2 update

On December 28, 2016, IC CL No. 2016-68 was issued to supersede IC CL No. 2015-30. This circular provides solvency requirements based on accepted solvency frameworks, requires insurance companies to at all times hold the RBC requirement determined in accordance with the rules and guidelines set forth by the circular plus any additional supervisory adjustments that may be required by the IC, and requires the satisfaction of the minimum statutory ratio. The circular is fully implemented since January 1, 2017.

	2020	2019
Available capital	1,272,204,918	1,794,320,521
RBC requirement	898,386,368	641,141,086
RBC Ratio	142%	280%

(ii) Financial reporting framework

On December 28, 2016, IC Circular No. 2015-29 was superseded by Circular No. 2016-65 which includes the economic valuation of asset and liabilities based on internationally accepted accounting, actuarial, and insurance core principles which requires quarterly and annual reporting of net worth to the IC. The circular is fully implemented starting January 1, 2017.

(c) Insurance risk

Nature of risk

The risk under any one insurance contract is the possibility that the insured event occurs. This event may be death, disability, accidental injury, hospitalization, or contraction of critical illness. By the very nature of an insurance contract, this risk is random and unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing, the principal risk that the Company faces under its insurance contracts is that future claims on death, accident, disability, and critical illness exceed the future premiums and the carrying amount of the insurance liabilities. This could occur if the frequency and magnitude of claims is greater than the assumptions used in calculating the Company's liabilities.

Occurrence of insured events is random, and the actual number of claims will vary from year to year from the mortality assumptions (and assumptions for other covered risks) made during product pricing. However, the law of large numbers is expected to be applicable as the pool of risk increases in volume and aggregate claims becomes more predictable.

In general, experience shows that the larger the portfolio of similar insurance contracts, the smaller is the relative variability compared to the expectations. Insurance risks generally vary by gender and age of the insured as these factors correlate greatly with the incidence rates of the insured events. Because of this, a more diverse demographic profile of insured lives may be more desirable since a more diverse risk profile reduces variability.

To minimize insurance risks, the Company strictly adheres to prudent underwriting standards in assessing insurance applications. These underwriting standards include a schedule of medical and non-medical requirements for specific range of ages and sum assured. Some policyholders are charged with additional premium in the form of flat or multiple extra premiums due to extra risks resulting from the applicant's occupation, health, and lifestyle. Applications for insurance may be denied or postponed for certain substandard cases. To guard against anti-selection, insurance applications that do not establish insurable interest are rejected. Statements of assets and liabilities may also be required from the applicant to justify the sum assured applied for, and his ability to pay the premium.

Frequency of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or widespread changes in lifestyle resulting in earlier or more claims than expected. In the Philippines, higher-than-expected claims also arise from typhoons, landslides, and other geologic events.

For contracts with discretionary participating feature, a portion of the insurance risk is effectively shared with the policy owner, as policy dividends may be reduced due to adverse claims and investment experience. For unit-linked insurance policies where the cost of insurance charges is not guaranteed, insurance risk is borne mostly by the policyholders. The Company has the right to alter the related charges based on its mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

The Company manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are pooled into a sufficiently large portfolio. Medical selection is also included in the underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. The Company has a retention limit of P2.5 million on any individual standard risk. The Company reinsures the excess of the insured benefit over P2.5 million for standard risks (from a medical point of view) under an automatic reinsurance arrangement. The tables below present the concentration of individually insured benefits across different bands of insured ages as measured by the face amount (before reinsurance) and net amount at risk or NAAR (after reinsurance).

Age bands (in years)	2020					
	Policy count	Face amount (in thousands)	Before reinsurance		After reinsurance	
			NAAR (in thousands)	Concentration (%)	NAAR (in thousands)	Concentration (%)
0-15	25,148	15,140,810	9,728,687	10	6,520,630	20
16-25	16,529	13,822,154	10,052,399	10	3,982,950	12
26-35	23,913	24,695,965	19,414,264	20	5,669,755	17
36-45	27,078	32,042,066	23,889,685	24	6,712,121	20
46-55	24,695	30,814,379	20,326,908	21	6,089,062	18
56-65	15,070	22,176,395	12,561,192	13	3,478,681	10
66-75	2,824	5,906,623	2,962,633	2	859,898	3
76 and above	32	55,486	20,488	0	18,060	0
	135,289	144,653,878	98,956,256	100	33,331,157	100

Age bands (in years)	2019					
	Policy count	Face amount (in thousands)	Before reinsurance		After reinsurance	
			NAAR (in thousands)	Concentration (%)	NAAR (in thousands)	Concentration (%)
0-15	21,675	7,877,142	4,155,916	11	4,034,984	11
16-25	12,897	6,548,512	4,264,936	11	4,060,286	11
26-35	18,975	9,847,385	6,806,859	17	6,604,678	18
36-45	28,664	16,579,457	9,316,063	24	8,851,883	24
46-55	19,909	15,978,519	8,772,752	22	8,227,635	22
56-65	11,502	10,979,035	4,706,326	12	4,370,041	12
66-75	2,153	3,233,449	1,285,696	3	1,154,562	2
76 and above	17	21,525	15,930	-	15,930	-
	115,792	71,065,024	39,324,478	100	37,319,999	100

These tables include whole life, endowment, anticipated endowment, and term insurance contracts; thus, the insured risk is a mixture of death and continued survival. NAAR is the net amount at risk, which is the difference between the face amount and the policy reserve. It is the net amount that would be payable upon death less liability released. The risk is spread over the younger through middle-aged bands.

Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behavior.

The Company uses appropriate tables of standard mortality for pricing and valuation of liabilities. An investigation into the actual mortality experience of the Company is carried out annually, but the experience is not yet considered statistically significant.

The Company maintains persistency statistics to monitor actual lapse experience against pricing assumptions and performance standards. Statutory reserves are calculated using decrements such as mortality, lapse, expenses, non-guaranteed benefits and a margin for adverse deviations. This results in a more conservative liability as gains on surrender are not anticipated in the valuation method.

(d) Investment risk

The investment risk represents the risks associated with changing interest rates. Whenever interest rates increase, market values of AFS financial assets decrease while interest income on new investments increases. As interest rates decline, market values of AFS financial assets increase while interest income on new investments decreases.

AFS financial assets are subject to declines in fair value. Generally, insurance regulations restrict the type of assets in which an insurance company may invest. When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements of foreign currency exchange rates, interest rates and equity prices, the Company may also enter into derivative transactions as end users.

To minimize these risks, the Company monitors the projected asset and liability cash flows to make sure that an acceptable level of matching exists. In purchasing fixed income instruments, the Company selects bonds with tenors that narrow the gap between asset and liability cash flows of the Company. Investment risks are reduced when assets and liability cash flows are adequately matched.

VUL policyholders bear the risks and rewards of investment fund performance, including interest risks under the contractual arrangement.

Fair value of financial instruments

The following tables summarize the carrying amount and fair values of the financial assets, financial liabilities and nonfinancial assets, analyzed based on inputs to fair value:

	2020				Total fair value
	Carrying value	Level 1	Level 2	Level 3	
Financial assets at FVTPL					
Quoted equity securities	272,307,360	272,307,360			272,307,360
Derivative asset	14,305,353		14,305,353		14,305,353
Investment in unit-linked funds	501,759,591	442,350,101		59,409,490	501,759,591
Financial assets for unit-linked contracts	35,819,815,670	35,178,578,894		641,236,776	35,819,815,670
AFS financial assets					
Government debt securities	10,472,203,163	10,472,203,163			10,472,203,163
Private debt securities	2,856,506,448	2,128,540,880	727,965,568		2,856,506,448
Equity securities	60,080,000	60,080,000			60,080,000
Total financial assets carried at fair value	49,996,977,585	48,554,060,398	742,270,921	700,646,266	49,996,977,585
Financial liabilities for unit-linked contracts	35,819,815,670	35,178,578,894	-	641,236,776	35,819,815,670
Financial assets for which fair values are disclosed					
HTM investments - government securities	-	-	-	-	-
	14,177,161,915	13,434,890,994	742,270,921	-	14,177,161,915
	2019				Total fair value
	Carrying value	Level 1	Level 2	Level 3	
Financial assets at FVTPL					
Quoted equity securities	367,429,067	367,429,067	-	-	367,429,067
Derivative asset	8,869,098		8,869,098	-	8,869,098
Investment in unit-linked funds	537,569,843	477,044,412	-	60,525,431	537,569,843
Financial assets for unit-linked contracts	23,236,579,771	21,887,527,815	-	1,349,051,956	23,236,579,771
AFS financial assets					
Government debt securities	4,619,064,819	4,619,064,819	-	-	4,619,064,819
Private debt securities	2,914,971,665	1,976,958,736	938,012,929	-	2,914,971,665
Equity securities	59,080,000	59,080,000	-	-	59,080,000
Total financial assets carried at fair value	31,743,564,263	29,387,104,849	946,882,027	1,409,577,387	31,743,564,263
Financial liabilities for unit-linked contracts	23,236,579,771	21,887,527,815	-	1,349,051,956	23,236,579,771
Financial assets for which fair values are disclosed					
HTM investments - government securities	3,447,573,117	3,865,786,871	-	-	3,865,786,871
	11,954,557,609	11,365,363,906	946,882,027	-	12,372,771,363

During the reporting period ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

Fair values of financial instruments are estimated as follows:

(i) AFS financial assets and HTM investments

The fair values of AFS financial assets and HTM investments that are actively traded in organized financial markets is determined by reference to quoted market within bid-ask prices, at the close of business reporting date or the last reporting date (Level 1). If the market prices are not readily available, such as in private debt securities, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology at the current market yield (Level 2).

(ii) *Financial assets at FVTPL and financial assets and liabilities for unit-linked contracts*

The fair values of equity and debt securities under Level 1 of the fair value hierarchy are determined by reference to quoted market bid prices, at the close of business reporting date, or the last reporting date. The fair values of equity-linked notes under Level 3 of the fair value hierarchy are determined by running simulations on the underlying indices to project the possible payouts of the instruments. The value of financial liabilities for unit-linked contracts follows those of the underlying assets.

(iii) *Derivative asset*

The fair value of derivative is the best estimate for the present value of an Allianz equity incentive plan hedge right based on standard mathematical models and market data as of the valuation date (Level 2).

The carrying values of other financial assets and liabilities including cash and cash equivalents, short term investments and loans and receivables reasonably approximate their fair values due to their short-term nature.

Sensitivity

The structured VULs (Level 3) can be decomposed into bond components and option components. The fair value of structured notes has been computed by counterparties ("Issuer") using present value calculations and option pricing models, as applicable. The management performs independent testing of the structured VULs to validate the reasonableness of counterparty values. The valuation methods used in the independent testing are summarized in the table below:

Structured notes	Significant unobservable inputs	Significant observable inputs
Peso denominated	Issuer's funding rate/ Issuer's CDS as proxy	PHP IRS
Dollar denominated	Issuer's funding rate/ Issuer's CDS as proxy	ROP CDS / USD IRS

The sensitivity analysis for the structured VULs requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The inputs used for the sensitivity analysis include certain market observable inputs including the counterparty's credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

The sensitivity analysis of the fair market value of the structured notes as of December 31 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

Sensitivity of the fair value measurement to changes in unobservable inputs follows:

Year	Structured investments	Significant unobservable input other than quoted prices within Level 1	Range of input	Sensitivity of the input to fair value
2020	Peso-denominated	Bank CDS levels	18.807 - 203.762 bps	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P3,553,014
2019	Peso-denominated	Bank CDS levels	17.955 - 94.873 bps	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P7,254,091

Notes: Range is from lower to upper bound in 2019 and 2020.

The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range.

Sensitivity of the fair value measurement to changes in observable inputs follows:

Year	Structured investments	Significant observable input	Range of input	Sensitivity of the input to fair value
2020	Peso-denominated	PHP IRS	1.4000% - 3.6750%	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P3,553,014
2019	Peso-denominated	PHP IRS	3.3000% - 5.9000%	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P7,254,091

Notes: Range is from lower to upper bound in 2019 and 2020.

The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range.

Rollforward analyses for the balances of structured notes are as follows:

	Dollar Income Optimizer	True North	Global Treasures	High Street Peso	Total
Beginning	-	660,158,949	405,005,976	283,887,031	1,349,051,956
Purchases	-	-	-	-	-
Maturities	-	(746,041,156)	-	-	(746,041,156)
Revaluation*	-	85,882,207	(4,311,730)	(43,344,501)	38,225,976
	-	-	400,694,246	240,542,530	641,236,776

*Revaluation is reflected only as increase (decrease) in the asset and liability of the Company. No impact in profit or loss or other comprehensive income.

	Dollar Income Optimizer	True North	Global Treasures	High Street Peso	Total
Beginning	969,253,410	572,564,703	340,004,250	268,134,750	2,149,957,113
Purchases	-	-	-	-	-
Maturities	(977,345,838)	-	-	-	(977,345,838)
Revaluation*	8,092,428	87,594,246	65,001,726	15,752,281	176,440,681
	-	660,158,949	405,005,976	283,887,031	1,349,051,956

*Revaluation is reflected only as increase (decrease) in the asset and liability of the Company. No impact in profit or loss or other comprehensive income.

(e) Financial risk

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

(f) Credit risk

Credit risk represents the loss that would be recognized if counterparties to investment transactions are unable or unwilling to fulfill their payment obligations. The credit risk arising from investment transactions is not significant as most of the Company's investments are in government securities, which are by definition risk-free. In addition, availability and trading of private debt securities are very limited. At present, the Company has exposure on four private debt securities. All purchases, especially private debt securities, goes through a stringent process of credit review and must be approved by the Company's Investment Committee and are subject to approval of the IC. Credit valuations and review are performed on a regular basis. The Company does not have any credit risk concentrations other than to the Philippine National Government due to its government bond investments. Aggregate exposure to all non-investment grade & unrated counterparties is at a maximum of 12% of total investment assets.

The Company has no substantial credit risk for policy loans since the loan amount is covered by the cash surrender value of the life insurance policy.

The Company issues unit-linked insurance policies. In the unit-linked business, the policyholder bears the investment risk in the assets held in the unit-linked funds as the policy benefits are directly linked to the values of the assets in the fund. Therefore, the Company has no material credit risk on unit-linked financial assets except for certain capital guaranteed products wherein the total fund value is expected to be lower than the guaranteed pay-outs to the policyholders. As at December 31, 2020 and 2019, the Company's capital guaranteed products are still performing above set expectations.

As of December 31, 2020 and 2019, the carrying values of the Company's financial instruments represent maximum exposure to credit risk at reporting date.

The tables below provide information regarding the exposure of the Company by classifying assets according to credit ratings of the counterparties.

2020	Neither past due nor impaired			Total
	Investment grade	Non-investment grade satisfactory	Past due or impaired	
Financial assets				
Cash and cash equivalents*	898,406,017	-	-	898,406,017
Insurance receivables	-	73,202,424	-	73,202,424
AFS financial assets				
Government debt securities	10,472,203,163	-	-	10,472,203,163
Private debt securities	2,856,506,448	-	-	2,856,506,448
Financial assets at FVTPL				
Derivative asset	14,305,353	-	-	14,305,353
Financial assets for unit-linked contracts	3,608,943,663	-	-	3,608,943,663
HTM investments - government securities	-	-	-	-
Loans and receivables (Note 6)				
Policy loans	-	312,464,990	-	312,464,990
Accrued income	174,294,946	-	-	174,294,946
Due from unit-linked fund	57,705,004	-	-	57,705,004
Advances from employees and agents	-	53,206,185	-	53,206,185
Other receivables	-	92,983,717	-	92,983,717
Rental and other deposits	-	18,419,937	-	18,419,937
Reinsurance Asset	-	-	-	-
Total financial assets	18,082,364,594	500,577,253	-	18,632,641,847

*Excluding petty cash fund.

2019	Neither past due nor impaired			Total
	Investment grade	Non-investment grade satisfactory	Past due or impaired	
Financial assets				
Cash and cash equivalents*	777,657,976	-	-	777,657,976
Insurance receivables	-	73,182,774	-	73,182,774
AFS financial assets				
Government debt securities	4,619,064,819	-	-	4,619,064,819
Private debt securities	2,914,971,665	-	-	2,914,971,665
Financial assets at FVTPL				
Derivative asset	8,869,098	-	-	8,869,098
Financial assets for unit-linked contracts	3,584,250,176	-	-	3,584,250,176
HTM investments - government securities	3,447,573,117	-	-	3,447,573,117
Loans and receivables (Note 6)				
Policy loans	-	277,968,545	-	277,968,545
Accrued income	152,496,945	-	-	152,496,945
Due from unit-linked fund	45,543,508	-	-	45,543,508
Advances from employees and agents	-	44,334,924	-	44,334,924
Other receivables	-	21,344,002	-	21,344,002
Rental and other deposits	-	16,299,130	-	16,299,130
Reinsurance Asset	-	-	-	-
Total financial assets	15,550,427,304	433,129,375	-	15,983,556,679

*Excluding petty cash fund.

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

1. Accrediting the financial institutions, brokers/dealers, intermediaries, and advisors with which the Company will do business. This accreditation is reviewed regularly.
2. Diversifying the portfolio so that risk exposure and concentration is minimized, and consequent potential losses could be managed. The Company limits exposure per issuer, per group of companies and per industry type.
3. Investing mainly on issues guaranteed by the Republic of the Philippines, or corporate papers issued by blue-chip companies with investment grade credit ratings.
4. Securing required approval by the Insurance Commission on investments other than sovereign issues as admitted assets / reserve investments of the Company.

All equity securities are classified as investment grade and there are no impaired securities. Hence, no impairment losses were recognized for the years ended December 31, 2020 and 2019.

(g) Liquidity risk

Major sources of liquidity for the Company's operational activities are insurance premiums received, investment income, and proceeds generated from the maturity or sale of investments. These funds are mainly used to pay life policy benefits, surrenders and cancellations, acquisition costs, and operating costs. Large part of premiums before payments of claims or policy benefits are required, generating solid cash flows from our insurance operations. This allows investment in funds in the interim to create investment income. The insurance operations also carry a high proportion of liquid investments, which can be converted into cash to pay for claims. Generally, investments in fixed-income securities are sequenced to mature when funds are expected to be needed.

The overall liquidity depends on capital market developments, interest rate levels, and the Company's ability to realize the market value of our investment portfolio to meet insurance claims and policyholder benefits. Liquidity needs are also influenced by trends in actual mortality rates compared to the assumptions underlying life insurance reserves. Market returns, crediting rates, and the behavior of our life insurance clients - for example, regarding the level of surrenders and withdrawals - can also have impacts. The Company, therefore, cannot predict the requirements of funding with absolute certainty since the theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate, based on statistical techniques and past experience.

The tables below summarize the maturity profile of financial liabilities of the Company using undiscounted contractual maturities based on remaining contractual obligations, or for the insurance provisions, based on the estimated timing of net cash outflows.

2020	Up to a year*	1 to 3 years	3 to 5 years	Over 5 years	Total undiscounted liabilities	Present value of liabilities
Insurance provisions	828,980,551	1,306,577,835	1,006,741,555	18,520,023,044	21,662,322,985	12,583,007,405
Due to reinsurer	19,195,176	-	-	-	19,195,176	19,195,176
Premium deposit fund	302,912,612	-	-	-	302,912,612	302,912,612
Accounts payable and accrued expenses	1,720,809,204	12,704,011	188,572	-	1,733,701,787	1,732,988,608
Financial liabilities for unit-linked contracts	35,419,121,424	400,694,246	-	-	35,819,815,670	35,819,815,670
Total financial liabilities	38,291,018,967	1,719,976,092	1,006,930,127	18,520,023,044	59,537,948,230	50,457,919,471

*Maturities up to a year are all commitments which are either due within the time frame or are payable on demand.

2019	Up to a year*	1 to 3 years	3 to 5 years	Over 5 years	Total undiscounted liabilities	Present value of liabilities
Insurance provisions	104,018,698	1,691,414,092	1,029,205,854	17,410,444,423	20,235,083,067	10,501,264,367
Due to reinsurer	17,760,184	-	-	-	17,760,184	17,760,184
Premium deposit fund	320,820,633	-	-	-	320,820,633	320,820,633
Accounts payable and accrued expenses	1,177,642,025	14,259,144	188,571	-	1,192,089,740	1,189,600,196
Financial liabilities for unit-linked contracts	22,547,686,764	688,893,007	-	-	23,236,579,771	23,236,579,771
Total financial liabilities	24,167,928,304	2,394,566,243	1,029,394,425	17,410,444,423	45,002,333,395	35,266,025,151

*Maturities up to a year are all commitments which are either due within the time frame or are payable on demand.

The Company manages liquidity risk through our liquidity risk assessment and asset/liability management processes, where it reconciles liquidity sources (e.g., cash from premiums and investments) and liquidity needs (e.g., payments due to insurance claims and expenses) under its best-estimate plan as well as under hypothetical adverse scenarios. In its investment strategy, the Company also place particular focus on the quality of investments and ensure a sufficient portion of liquid assets in our portfolios.

The Company identifies the following events that might lead to liquidity shortages:

- Catastrophe claims
- Mass lapse
- Credit counterparty defaults that leads to default of expected cash inflows
- Strategic and reputational events
- Various operational events, including delayed payment by reinsurance counterparties
- Large penalties payable

The measures and limits below serve to address the above-mentioned sources of liquidity risk:

	Limit
Minimum working capital level	P50 million
Target liquid assets allocation (cash and cash equivalents including repos) to meet short term or future payment obligation in the adverse event scenarios	5% and 2% of total invested PHP and USD assets, respectively
Minimum asset allocation on liquid bonds (government bonds) to further mitigate liquidity risk in extreme event	20% of total invested assets

The Investment team monitors the required minimum liquid asset allocation on a monthly basis. In case of breaches, the Investment department shall propose and execute action plan to ensure compliance.

The Risk team monitors the liquidity intensity ratio for the base case and for adverse scenarios, based on the Allianz Standard for Liquidity Risk Management, on a quarterly basis.

Target limit of allocation in liquid assets (cash and cash equivalents including repos) has a leeway of +/-5% for both PHP and USD. This is in line with the set Strategic Asset Allocation (SAA) of the Company.

(h) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rate (currency risk), market interest rate (fair value interest rate risk), and market price (equity price risk).

The following BOD approved policies and procedures are in place to mitigate the Company's exposure to market risk:

- Market risk policy on the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

- Asset allocation and portfolio limit structure to ensure that assets back specific policyholders' liabilities and those assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.
- Diversification benchmarks by type of instrument, as they are exposed to guaranteed bonuses, cash and annuity options when interest rates falls.

(i) *Currency risk*

Currency risk is the risk that the value of the financial instrument will fluctuate because of changes in foreign exchange rates.

Assets and liabilities are denominated both in PHP and USD. The assets are sufficient to match the corresponding liabilities except when an intentional currency mismatch is suitable during times of rapidly depreciating currency. The surplus of the Company is invested in Philippine Peso.

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

	2020		2019	
	US\$	PHP	US\$	PHP
Financial assets				
Cash and cash equivalents	9,964,622	478,531,033	6,438,224	325,999,475
Investment in unit-linked funds	188,707	9,062,299	153,995	7,797,542
Financial assets for unit-linked contracts	410,223,296	19,700,153,359	202,412,635	10,249,163,791
AFS financial assets	64,577,456	3,101,203,164	38,830,119	1,966,163,058
HTM investments	-	-	12,641,140	640,084,123
Accrued interest	1,017,378	48,857,522	931,738	47,178,532
Policy loans, including due and uncollected premiums	1,115,579	53,573,443	1,129,623	57,198,473
	487,087,038	23,391,380,820	262,537,474	13,293,584,994
Financial liabilities				
Aggregate reserves on life policies	51,331,450	2,465,090,223	49,504,872	2,506,679,194
Premium deposit fund	318,908	15,314,937	382,457	19,365,695
Financial liabilities for unit-linked contracts	410,223,296	19,700,153,359	202,412,635	10,249,163,791
	461,873,654	22,180,558,519	252,299,964	12,775,208,680
	(23,213,384)	1,210,822,301	10,237,510	518,376,314

The foreign exchange rate used in 2020 and 2019 were P48.02 and P50.64 to US\$1, respectively.

Unrealized foreign exchange gain (loss) recognized in the statements of income under Foreign exchange loss, net amounted to P7,277,280 and (P31,915,377) in 2020 and 2019, respectively.

The analysis below is performed for reasonably possible movements in the Philippine Peso to US Dollar foreign exchange rate with all other variables held constant, showing the impact on profit before tax (due to changes in the fair value of currency sensitive monetary assets and liabilities). The rates used are based on average fluctuations during the year. There is no other impact on the Company's equity other than those already affecting the statement of income.

Period	Currency	Changes in variable	Impact on profit after tax
2020	US\$	0.25%	3,027,056
		(0.25%)	(3,027,056)
2019	US\$	0.25%	1,295,941
		(0.25%)	(1,295,941)

The Company determined the reasonably possible change in foreign exchange rates by using the trend analyses of monthly PDEX closing rate for the past two years.

(j) *Fair value interest rate risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate investments in government bonds and private debt securities classified as AFS financial assets are particularly exposed to such risk.

The Company's investment policy requires it to buy and hold AFS financial assets, unless the need to sell arises, and to reduce the duration gap between financial assets and financial liabilities to minimize interest rate risk. Securities are also marked-to-market monthly to reflect and account for both unrealized gains and losses.

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

2020	Range of Interest rate	Maturity				Total
		Up to a year*	1-3 years	3-5 years	Over 5 years	
AFS financial assets						
Government debt securities						
Peso-denominated	2.80%-14.60%	-	158,188,570	164,154,955	7,605,206,162	7,927,549,687
Dollar-denominated	2.65%-10.63%	96,052,723	-	540,096,252	1,908,504,501	2,544,653,476
Private debt securities						
Peso-denominated	0.00%-5.50%	13,824,711	535,869,829	710,981,852	1,039,280,368	2,299,956,760
Dollar-denominated	2.63%-8.60%	46,192,700	268,643,639	123,452,726	118,260,623	556,549,688
Total AFS financial assets		156,070,134	962,702,038	1,538,685,785	10,671,251,654	13,328,709,611

*Maturities up to a year are all commitments which are either due within the time frame or are payable on demand.

2019	Range of Interest rate	Maturity				Total
		Up to a year*	1-3 years	3-5 years	Over 5 years	
AFS financial assets						
Government debt securities						
Peso-denominated	2.80%-14.60%	-	11,902,036	92,044,760	3,086,799,525	3,190,746,321
Dollar-denominated	3.7%-10.63%	37,026,388	103,466,546	163,966,232	1,123,859,332	1,428,318,498
Private debt securities						
Peso-denominated	0.00%-6.11%	-	379,820,997	665,679,509	1,331,626,599	2,377,127,105
Dollar-denominated	2.63%-7.39%	130,340,333	48,653,475	358,850,752	-	537,844,560
Total AFS financial assets		167,366,721	543,843,054	1,280,541,253	5,542,285,456	7,534,036,484

*Maturities up to a year are all commitments which are either due within the time frame or are payable on demand.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on equity (that reflects adjustments on the fair value of fixed rate AFS financial assets).

2020	Change in variables	Impact on equity
Peso	+0.25%	(176,531,946)
US Dollar	+0.25%	(50,755,406)
Peso	-0.25%	181,462,003
US Dollar	-0.25%	52,297,407

2019	Change in variables	Impact on equity
Peso	+0.25%	(79,633,141)
US Dollar	+0.25%	(32,441,577)
Peso	-0.25%	81,616,512
US Dollar	-0.25%	33,461,324

The Company determined the reasonably possible change in fair value interest rate risk by using the trend analyses of the Company's monthly sustainable portfolio yields for the past three years.

(k) *Equity price risk*

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

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Company's investment policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; limits on investment in each country, sector and market.

The Company has certain direct minority investments in publicly traded companies. These investments are classified as financial assets at FVTPL.

The fair values of equity investments classified as financial assets at FVTPL as of December 31, 2020 and 2019 amounted to P272,307,360 and P367,429,066, respectively (Note 4).

The analysis below is performed for reasonably possible movements in the PSE index with all other variables held constant, showing the impact on equity and profit or loss after tax (that reflects changes in fair value of financial assets at FVTPL). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

2020	Change in variables	Impact on equity/profit or loss after tax
PSEi	5.05%	11,813,427
PSEi	-5.05%	(11,813,427)

2019	Change in variables	Impact on equity/profit or loss after tax
PSEi	4.92%	13,526,821
PSEi	-4.92%	(13,526,821)

The impact on profit before tax (due to changes in fair value) is not shown as the sensitivity is deemed immaterial.

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

(l) *Deferral of PFRS 9, Financial instruments*

PFRS 9, Financial instruments, issued by the IASB in July 2014, fully replaces PAS 39 and provides a new approach on how to classify financial instruments based on their cash flow characteristics and the business model under which they are managed. Furthermore, the standard introduces a new forward-looking impairment model for debt instruments and provides new rules for hedge accounting. It can be assumed that the main impact from PFRS 9 will arise from the new classification rules leading to more financial instruments being measured at fair value through income as well as the new impairment model. Interdependencies with IFRS 17 will need to be considered to assess the ultimate combined impact of both standards.

The amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts, issued in September 2016, allow entities that issue insurance contracts within the scope of PFRS 4 to defer the implementation of PFRS 9 until January 1, 2021 under certain circumstances.

In November 2018, the IASB Board voted to propose a one-year deferral of the effective date for PFRS 17 to 2022. As a consequence of the PFRS 17 deferral, the Board also agreed to revise the fixed expiry date of the temporary exemption from PFRS 9 in PFRS 4 to allow entities to continue applying the temporary exemption from PFRS 9 until January 1, 2022.

The IC, through its CL No. 2018-69, has deferred the implementation of PFRS 17 for life insurance and non-life insurance industry to January 1, 2023. On May 18, 2020, the IC, through its CL No. 2020-62, has further deferred the implementation of PFRS 17 for life insurance and non-life insurance industry to January 1, 2025 or two (2) years after its effective date as decided by the IASB (i.e., January 1, 2023).

The Company meets the eligibility requirements set out in 'Applying IFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)'; and has elected to defer the application of PFRS 9 until the Company adopts PFRS 17.

In order to qualify for the temporary exemption, an entity has to prove that its activities are predominantly connected to insurance as of December 31, 2015. Under the amended PFRS 4, this condition is met if the insurer carries significant liabilities arising from contracts within the scope of PFRS 4.

Significant insurance-related liabilities are given, among others, if the percentage of the total carrying amount of liabilities connected with insurance relative to the total carrying amount of all liabilities is greater than 90%. A reassessment at a subsequent annual reporting date is required if, and only if, there was a change in the entity's activities during the annual period that ended on that date.

As of December 31, 2015, the Company's total carrying amount of liabilities connected with insurance amounted to P21,048,319,666 which represented more than 98.12% of its total liabilities of P21,452,621,009.

The following table provides an overview of the fair values as at December 31, 2020 and 2019, and the amounts of change in the fair values during the reporting period separately for financial assets that meet the SPPI criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading in PFRS 9, or that is managed and whose performance is evaluated on a fair value basis) and all other financial assets:

	Financial assets that meet the SPPI criteria		All other financial assets	
	Fair value	Fair value change during the reporting period	Fair value	Fair value change during the reporting period
December 31, 2020				
Cash and cash equivalents	898,406,017	-	-	-
Financial assets for unit-linked contracts	-	-	35,819,815,670	-
Financial assets at fair value through profit or loss	-	-	788,372,304	42,695,909
Available-for-sale financial assets	13,328,709,611	1,480,984,579	60,080,000	(180,000)
Held-to-maturity investments	-	-	-	-
Loans and receivables (Note 6)	378,189,852	-	-	-
Rental and other deposits	18,419,937	-	-	-
	14,617,815,086	1,480,984,579	36,668,267,974	42,515,909

	Financial assets that meet the SPPI criteria		All other financial assets	
	Fair value	Fair value change during the reporting period	Fair value	Fair value change during the reporting period
December 31, 2019				
Cash and cash equivalents	777,657,978	-	-	-
Financial assets for unit-linked contracts	-	-	23,236,579,771	-
Financial assets at fair value through profit or loss	-	-	913,868,008	42,377,187
Available-for-sale financial assets	7,534,036,484	(1,035,188,336)	59,080,000	(5,950,000)
Held-to-maturity investments	3,447,573,117	-	-	-
Loans and receivables (Note 6)	263,719,379	-	-	-
Rental and other deposits	16,299,130	-	-	-
	12,039,286,088	(1,035,188,336)	24,209,527,779	36,427,187

The financial assets for unit-linked contracts are exclusively held on behalf and for the benefit of unit-linked policyholders. To ensure consistency with the corresponding accounting treatment for the unit-linked contracts, these investments are designated at fair value through profit or loss under current accounting rules. This treatment is going to be maintained under the future PFRS 9 regime accordingly.

The following tables provide information about the credit risk exposures for financial assets with contractual terms that meet the SPPI criterion at December 31, 2020 and 2019. It includes the carrying amounts applying PAS 39 (in the case of financial assets measured at amortized cost before adjusting for any impairment allowances):

	Neither past due nor impaired		Past due or impaired	Total
	Investment grade	Non-investment grade		
December 31, 2020				
Cash and cash equivalents	898,406,017	-	-	898,406,017
Available-for-sale financial assets	13,328,709,611	-	-	13,328,709,611
Held-to-maturity investments	-	-	-	-
Loans and receivables	231,999,950	146,189,902	-	378,189,852
Rental and other deposits	-	18,419,937	-	18,419,937
	14,459,115,578	164,609,839	-	14,623,725,417

	Neither past due nor impaired		Past due or impaired	Total
	Investment grade	Non-investment grade		
December 31, 2019				
Cash and cash equivalents	777,657,978	-	-	777,657,978
Available-for-sale financial assets	7,534,036,484	-	-	7,534,036,484
Held-to-maturity investments	3,447,573,117	-	-	3,447,573,117
Loans and receivables	198,040,453	65,678,925	-	263,719,378
Rental and other deposits	-	16,299,130	-	16,299,130
	11,957,308,032	81,978,055	-	12,039,286,087

The fair values of financial assets included in the tables presented in the previous page that are non-investment grade, and thus do not have low credit risk as of December 31, 2020 and 2019, approximately equal the respective carrying amounts.

The Company did not subsequently reassess its eligibility for the temporary exemption from PFRS 9 as there was no change in the Company's activities for the period ending December 31, 2020 and 2019.

29. Contingencies and commitments

Contingencies

The Company has various litigations during the year and has reasonably provided for possible costs that it may incur for the resolution of these claims. There were no other provisions for probable loss recognized in 2020 and 2019. This has been assessed in consultation with the Company's legal counsels and based upon an analysis of potential results. The Company has deposited P7,169,566 (Note 7) to an appellate court in relation to its pending case.

Inclusion of details in addition to the current disclosure may prejudice the Company's position; thus, as allowed under PAS 37, Provisions, Contingent Liabilities, and Contingent Assets, only general disclosure is provided.

Lease commitments

The Company leases various office for its back office and operations. The Company also has several lease agreements covering the head office premises and branch offices for periods ranging from 1 to 5 years until December 2023. These lease contracts are renewable upon mutual agreement of the Company and the lessors.

From January 1, 2019, lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The statement of income shows the following amounts relating to leases for the year ended December 31, 2020 and 2019:

	2020	2019
Depreciation expenses	26,866,483	26,400,262
Interest expense (included in general and administrative expenses)	1,329,438	2,598,378
Expense relating to short-term leases (included in general and administrative expense)	14,470,841	7,846,549

The total cash outflow for leases as at December 31, 2020 is P25,206,320.

Discount rate

Payments for leases of office space are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment with similar terms, security and conditions.

The incremental borrowing rates applied to measure the lease liabilities as at December 31, 2020 range from 1.003% to 5.90% (2019 - 2.914% to 5.90%).

If the incremental borrowing rate used to discount lease liability will differ by 1% from management's estimates, the carrying amount of lease liability in 2020 would be higher/lower by an estimated P13,524.

30. Summary of Significant Accounting Policies

30.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with PFRSs. The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The financial statements of the Company have been prepared on a historical cost basis, except for AFS financial assets, financial assets at FVTPL, financial assets and liabilities for unit-linked contracts, derivative financial instruments and plan assets which have been measured at fair value. The financial statements are presented in Philippine Peso ("Peso" or "PHP"), which is the Company's functional currency.

30.2 Changes in accounting policies and disclosures

(a) New standards and interpretations adopted by the Company

The following relevant amended standards have been adopted by the Company effective January 1, 2020:

- Amendments to PAS 1, 'Presentation of Financial Statements', and PAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'

The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and; the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The adoption of the above amendments did not have a material impact to the Company's financial statements as a whole.

- Amendments to PFRS 16, "Leases", COVID-19 related concessions
The amendment, effective June 1, 2020, provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

The adoption of the above amendments did not have a material impact to the Company's financial statements as a whole.

- Adoption of the Revised Conceptual Framework for Financial Reporting

The revised Framework includes the following changes:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020.

The adoption of the above revised standard did not have a material impact on the Company's financial statements as the accounting policies of the Company are still appropriate under the revised Framework.

(b) New standards not yet effective and not early adopted by the Company

The following relevant new accounting standards and interpretations are not mandatory for the December 31, 2020 reporting period and has not been early adopted by the Company:

- PFRS 17, 'Insurance Contracts' (effective January 1, 2023). PFRS 17, 'Insurance contracts'. PFRS 17 was issued in May 2017 as replacement for PFRS 4, 'Insurance Contracts'. The Insurance Commission, through its Circular Letter 2018-69, has deferred the implementation of PFRS 17 for life insurance and non-life insurance industry to January 1, 2023. In view of the impact of the COVID-19 pandemic, the Insurance Commission issued Circular Letter 2020-62 dated May 18, 2020 to further defer the implementation of PFRS 17 for life and non-life insurance industries to January 1, 2025. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Allianz Group's management has reviewed the impact of IFRS 17 across its entire business (including the Company). The project team established in 2017 already published implementation approach and changes in the finance IT infrastructure. New tools to address new requirements for IFRS 9 and 17 are already available for localized implementation.

- PFRS 9, 'Financial instruments' (effective January 1, 2018). PFRS 9 deals with the classification, measurement and impairment of financial instruments, as well as hedge accounting.

PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39 'Financial Instruments: Recognition and Measurement' with a single model that has three classification categories: amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. Classification under PFRS 9 is driven by the entity's business model for managing and holding the financial assets and whether the contractual characteristics of the financial assets represent solely payments of principal and interest. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at fair value through profit or loss. For such liabilities, changes in fair value arising from changes in the entity's own credit risk are presented separately in OCI.

The impairment rules of PFRS 9 introduce an 'expected credit loss' model that replaces the 'incurred credit loss' model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39.

The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges.

On the adoption of PFRS 9, the Company will be required to consider the business model objective for holding financial instruments and the nature of the cash flow characteristics of the financial instruments held. These may be impacted by the basis of measurement of the Company's insurance liabilities at the time when PFRS 9 is adopted.

Although PFRS 9 has an effective date for accounting periods beginning on or after January 1, 2018, the Company has elected to avail of the optional relief provided in '*Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)*'. The Company will apply the temporary exemption from applying PFRS 9 until the date the Company first adopts PFRS 17, Insurance Contracts- which is expected to be the accounting period beginning January 1, 2023. The basis for Company's eligibility for electing to defer the application of PFRS 9 and associated required disclosures are set out in more detail in Note 31.

There are no other standards, amendments or interpretations that are effective beginning on or after January 1, 2020 that are considered relevant and have material impact to the Company.

30.3 Insurance product classification

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk, if an insured event could cause the Company to pay significant additional benefits, where additional benefits refer to amounts that exceed those that would be payable if no insured event occurred. An additional benefit is considered to be significant if it is at least 10% more than what would be payable if the policy was surrendered. Insurance contracts also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index or price or rates, a credit rating or credit index or another variable. Investment contracts mainly transfer financial risk but may also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly in subsequent periods, unless all rights and obligations are extinguished or have expired. Investment contracts, however, can be reclassified to insurance contracts after inception if the insurance risk becomes significant. For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately as financial assets or liabilities at FVTPL. Bifurcation is not required if the embedded derivative is itself an insurance contract or when the host insurance contract itself is measured as financial assets or liabilities at FVTPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments which are closely related to the host insurance and therefore not bifurcated subsequently. As such, the Company does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payment on the contract to units of internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Based on Company's guidelines, all products in its portfolio meet the definition of insurance contracts, including unit-linked products, which contain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

30.4 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 months or less from dates of placement, are subject to an insignificant risk of changes in value and are free of any encumbrances.

30.5 Insurance receivables

Insurance receivables are recognized when due and are measured on initial recognition at the fair value of the consideration. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with adjustments recorded in the statement of income. Insurance receivables are derecognized following the derecognition criteria of financial assets.

30.6 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.

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

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

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

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

30.7 Financial instruments

30.7.1 Initial recognition

Financial assets and liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments at FVTPL.

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

30.7.2 Day 1 difference

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statement of income. In cases where no observable data is used, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the Day 1 difference amount.

30.7.3 Classification

The Company classifies its financial assets into the following categories: AFS financial assets, HTM investments, loans and receivables, and financial assets at FVTPL. Financial liabilities are classified as financial liabilities at FVTPL and other financial liabilities. The Company determines the classification at initial recognition and where appropriate and applicable, re-evaluates such designation at every reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income.

Financial assets or financial liabilities at FVTPL

This category consists of financial assets or financial liabilities that are held for trading or designated by management as financial assets or financial liabilities at FVTPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category. Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in the statement of income, included under the net fair value gains or losses accounts. Interest earned or incurred is recorded in investment income or interest expense, respectively, while dividend income is recorded when the right of the payment has been established under the investment income account.

Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed, and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Company's financial assets at FVTPL pertain to the Company's investments in listed equity securities, derivative asset in relation to the RSU (Note 4) and financial assets for unit-linked contracts (Note 3). The investments in listed equity securities are designated as financial assets at FVTPL on initial recognition since the investments contain an embedded derivative that significantly modifies the cash flows.

The Company's financial liability at FVTPL pertains to financial liabilities for unit-linked contracts (Note 3). The financial assets and liabilities for unit-linked contracts are designated as such since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when fair values are negative. Derivative financial instruments held-for-trading are initially recorded at fair value and are typically entered into with the intention to settle in the near future. Subsequent to initial recognition, these instruments are measured at fair value. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in the statement of income.

The Company has derivative financial instruments in relation to its share-based obligation in form of restricted stock units (Note 23) as of December 31, 2020 and 2019. These are classified as held for trading with changes in fair value recognized in the statement of income.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not at FVTPL. Bifurcated embedded derivatives are accounted for at FVTPL.

The Company assesses whether embedded derivatives are required to be separated from the host contracts when the Company becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows. The Company determines whether modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract, or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

As of December 31, 2020 and 2019, the Company has no embedded derivatives requiring bifurcation since the hybrid instruments have been designated as financial assets at FVTPL of which the characteristics and risks are closely related to the host contract.

HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells or reclassifies other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income.

The effects of restatement of foreign currency-denominated HTM investments are recognized in the statement of income.

In the case of a financial asset with a fixed maturity (such as Debt Securities classified as AFS) reclassified to HTM, the cumulative gain or loss arising from the equity portion of the AFS shall be amortized to profit or loss over the remaining life of the held-to-maturity investment using the effective interest method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. This accounting policy relates to the statement of financial position captions "Cash and cash equivalents", "Insurance receivables", "Loans and receivables", and rental deposits under "Prepayments and deposits".

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included under "Investment income" in the statement of income. The losses arising from impairment of such loans and receivables are recognized under "Impairment loss" in the statement of income.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be designated as financial assets at FVTPL, HTM investments, or loans and receivables. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. They include government securities, equity investments, and other debt instruments.

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

In the case of a financial asset with a fixed maturity (such as Debt securities classified as HTM) reclassified to AFS, it should be remeasured at fair value at the date of reclassification. The difference between its previous carrying amount and fair value should be recognised in other comprehensive income.

Other financial liabilities

Other financial liabilities pertain to issued financial instruments or their components that are not classified or designated as financial liabilities at FVTPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

This accounting policy applies primarily to the Company's "Insurance provisions", "Premium deposit fund", "Due to reinsurer" and "Accounts payable and accrued expenses" that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable).

30.7.4 Offsetting of financial instruments

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

30.8 Classification of financial instruments between debt and equity

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

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

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

30.9 *Impairment of financial assets*

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

AFS financial assets carried at fair value

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

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "Investment income" in the statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding expected future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate or the effective interest rate computed at initial recognition. The carrying amount of the financial asset shall be reduced either directly or through the use of an allowance account. HTM investments and loans and receivables, together with the associated allowance accounts are written off when there is no realistic prospect of future recovery and all the collaterals have been realized. The amount of the loss shall be recognized in the statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the Company, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence exists for an individually assessed financial asset, whether significant or not, the financial assets is included in a group of financial assets with similar characteristics such as customer type, payment history, pass due status and term, and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being revaluated. Financial assets that are individually assessed for impairment and for which an impairment loss is or continuous to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the statement of income. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

30.10 Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized 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: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right to receive cash flows from an asset 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 a 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 liabilities

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

30.11 Policy loans

Policy loans included under "Loans and receivables" are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

30.12 Reinsurance

The Company cedes insurance risk in the normal course of business. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Reinsured claims already settled by the Company but are not yet reimbursed by the reinsurers are presented as part of "Insurance receivables" in the assets section of the statement of financial position.

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

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums are presented on a gross basis. Reinsurance assets or liabilities are derecognized when the contractual right is extinguished or has expired or when the contract is transferred to another party.

30.13 Property and equipment; Software

Property and equipment are stated at cost less accumulated depreciation or amortization, and accumulated impairment in value. Such cost includes initial transaction costs but excludes day to day servicing costs. Replacement or major repairs and maintenance costs are capitalized if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be reliably measured.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the property and equipment follow:

	Years
Computer and office equipment	2 - 5
Furniture and fixtures	5
Transportation equipment	5
Leasehold improvements	Shorter of 5 years or lease term

The assets' residual values, useful lives, and depreciation and amortization method are reviewed at each reporting date and adjusted if appropriate to ensure that the period, residual value, and the method of depreciation and amortization are consistent with the expected pattern of consumption of future economic benefits embodied in the asset that is accounted for. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognized in the statement of income.

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognized. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and net book value of the asset) is included in the statement of income in the year the asset is derecognized. However, this is not applicable to items that still have a useful life but are currently classified as idle where the related depreciation continues to be recognized.

CIP represents an item of property and equipment under construction or undergoing commissioning or major rehabilitation. CIP is not depreciated until such time that the relevant assets are completed and are ready for intended use.

Intangible assets under development pertain to acquired computer and application software licenses capitalized on the basis of the costs incurred to acquire and bring to use the specific software. The capitalized costs represent probable future economic benefits associated with the item that will flow to the entity and can be reliably measured. Intangible assets under development are reclassified to software at such time that the relevant assets are completed and are ready for intended use.

Following the reclassification, software are carried at cost less any accumulated amortization and any accumulated impairment losses. Amortization is computed using the straight-line method over their estimated useful lives, which do not exceed five years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in profit or loss.

Software are derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset is included in profit or loss in the year the asset is derecognized.

30.14 Impairment of non-financial assets

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

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as an adjustment to the revaluation increment. After such a reversal, the depreciation and amortization expense 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.

30.15 Insurance provisions

Life insurance liabilities

Life insurance liabilities refer to liabilities of the Company that are recognized due to the obligations arising from policy contracts issued by the Company. The reserves for life insurance contracts are calculated based on prudent statutory assumptions in accordance with generally accepted actuarial methods that are compliant with existing regulations of the Insurance Commission.

30.15.1 Aggregate reserves for life policies

For any traditional life insurance policy with a term of one year or less, the reserve is calculated using the unearned premium method. Where appropriate, the reserves for traditional life insurance policies with terms of more than one year is valued using gross premium valuation. The liability is calculated as the present value of all future benefits and expenses, less the present value of future gross premiums arising from the policy. The present value is determined by discounting the cash flows at the appropriate risk-free-rate for the timing of each cash flows. For this purpose, the expected future cash flows is determined using best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.

The aggregate reserve for life policies represents the accumulated total liability for policies in force as of the reporting date. Such reserves are established at amounts adequate to meet the estimated future obligations of all life insurance policies in force. The reserves are calculated using actuarial methods and assumptions in accordance with statutory requirements and as approved by the IC, subject to the minimum liability adequacy test (Note 28).

30.15.2 Policy and contract claims payable and provision for IBNR claims

For unpaid claims and benefits, a provision is made for the estimated cost of all claims and dividends reported but not settled at the reporting date using the information available at reporting date.

Provision is also made for the cost of IBNR claims 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 the statement of income in later years. Policy and contract claims payable form part of the liability section of the statement of financial position under "Insurance provisions."

30.15.3 Reserve for policyholders' dividends due and unpaid

A number of insurance contracts are participating and contain a Discretionary Participating Feature (DPF). This feature entitles the policyholder to receive, as a supplement to guaranteed benefits, annual policy dividends that are credited at each policy anniversary, as long as the policy is in force. These annual policy dividends represent a portion of the theoretical investment and underwriting gains from the pool of contracts. Policy dividends are not guaranteed and may change based on the periodic experience review of the Company. Further, in accordance with regulatory requirements, dividends payable in the following year are prudently set up as a liability in the statement of financial position.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the annual cash dividends at the time the product is priced. The Company may exercise its discretion to revise the dividend scale in consideration of the emerging actual experience on each block of participating policies. Reserve for dividends to policyholders on contracts with DPF is shown in the statement of financial position under "Insurance provisions."

There is no statutory requirement as to the level of eligible surplus that may be attributed to participating policyholders. The amount distributed to individual policyholders is at the discretion of the Company, subject to the endorsement of the Chief Finance Officer and approval by the BOD.

30.16 Unit-linked insurance contracts

The Company issues unit-linked insurance contracts. Considerations received from unit-linked insurance contracts, in excess of the portion that is placed under a withdrawable segregated account, are recognized as revenue.

The Company's revenue from unit-linked contracts consists of charges deducted from the policyholder's separate account, in accordance with the unit-linked policy contract. Collections received from unit-linked policies are separated to financial assets for unit-linked contracts from which the Company withdraws administrative and cost of insurance charges in accordance with the policy provisions of the unit-linked insurance contracts. After deduction of these charges, the remaining amounts in the financial assets for unit-linked contracts are equal to the surrender value of the unit-linked policyholders and are withdrawable anytime. Administrative charges are recognized as revenue under "Referral and trust fees" while cost of insurance charges are recognized as part of "Premium revenue".

Financial assets for unit-linked contracts are recorded at fair value, with changes in fair value recognized in the income statement together with the offsetting changes in fair value of the corresponding financial liabilities for unit-linked contracts. Financial liabilities for unit-linked contracts are set up equal to financial assets for unit-linked contracts, which serves as the Company's liability to unit-linked policyholders.

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 the total number of outstanding units of the policyholder multiplied by the net asset value per unit (NAVPU). The NAVPU is the fair value of the fund divided by the total number of outstanding units.

30.17 Structured entities

As defined under PFRS 12, *Disclosure of interests in other entities*, a structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

The Company engages in some business activities that involve the use of entities that meet the above-mentioned definition of structured entities. Primarily, the Company is involved with such entities due to its investment activities associated with its unit-linked products.

The Company's maximum exposure to loss arising from its interests in unconsolidated structured entities is limited to the carrying amount of its seed capital as disclosed in Notes 3 and 4. The Company's income from these unconsolidated structured entities pertains to the change in fair value of seed capital.

30.18 Liability adequacy test

Liability adequacy tests are 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 are used. Any deficiency is immediately charged against the statement of income initially by establishing a provision for losses arising from the liability adequacy tests. The adequacy of the liability on insurance contracts is tested based on the pricing assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of a new set of revised best estimate assumptions, such assumptions are used for the subsequent measurement of these liabilities. The liability adequacy test is addressed by the gross premium valuation performed by the Company for the aggregate reserves for life policies.

30.19 Equity

Capital stock

Capital stock is measured at par value for all shares issued.

Additional paid-in capital (APIC)

APIC represents capital contribution to the Company in excess of par value of the capital stock.

Retained earnings (deficit)

This represents the cumulative balance of earnings (losses) of the Company, dividend distribution, and impact of changes in accounting policy.

Contingency surplus

Contingency surplus represents additional capital contribution to cover the Company's capital requirements. Such amount is presented as part of "Contingency surplus" in accordance with the guidelines of the IC. The amount can be withdrawn only upon the approval of IC.

30.20 Revenue recognition

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

Premium income

Premium income from life insurance contracts is recognized as revenue when payable by the policyholder. For new policies, revenue is first recognized on the effective date of the policy, provided that the single-pay premium or the first modal premium has been paid. Succeeding premiums are recorded as revenues on the date when the payments are due from policyholders. Cost of insurance charges pertain to portion of the collection received from unit-linked policies, in which these are recognized as premium income upon receiving the payment after separating the amount to be invested.

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The change in carrying amount is recorded as "Interest income."

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

Referral and trust fees

Unit-linked funds are charged for fund management and administration. These fees are recognized as revenue in the period in which the related services are rendered.

Dividend income

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

30.21 Benefits, claims, and expenses recognition

Benefits and claims

These expenses consist of claims and insurance benefits incurred during the period, which include excess benefit claims for unit-linked insurance contracts, as well as changes in the valuation of insurance contract liabilities. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

Commissions and agency related compensation expense

Commissions and agency related compensation expense are recognized when the insurance contracts are entered into and the related premiums are recognized.

Interest expense

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

General and administrative expenses

General and administrative expenses are recognized in the statement of income in the period these are incurred.

30.22 Leases

From January 1, 2019, assets and liabilities arising from a lease are initially measured on a present value basis. The interest expense is recognized in the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

a) Measurement lease liability

The lease liability includes the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Company's leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third-party financing, and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

b) Measurement of ROU assets

ROU assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life.

c) Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

d) Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A restatement is made after the inception of the lease only if one of the following applies:

- there is a change in the contractual terms, other than a renewal or extension of the arrangement;

- a renewal option is exercised, or extension granted, unless the term of the renewal and extension was initially included in the lease term;
- there is a change in the determination of whether the fulfillment is dependent on a specified asset; or
- there is a substantial change to the asset.

Company as a lessee

Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term.

Refundable lease deposits are measured initially at fair value. After initial recognition, refundable lease deposits are subsequently measured at amortized cost using the effective interest rate. The difference between the carrying amount and the actual consideration given is treated as prepaid rent which is amortized using the straight-line method over the term of the lease.

30.23 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

30.24 Share-based payments

The Allianz Equity Incentive plan (AEI plan) is granted in the form of restricted stock units (RSUs) and is part of a new variable compensation plan of the Allianz Group. RSUs are virtual stocks without dividend payments and a capped payout with vesting period of four years. The fair value is calculated by subtracting the net present value of expected future dividend payments until maturity as well as the fair value of the cap from the prevailing share price as of valuation date. Upon death of beneficiaries, a change of notice control, or notice for operational reasons, the RSUs vest immediately and will be exercised by the Company.

The RSU are accounted for as cash-settled plans as the Allianz Group intends to settle in cash. The Company accrues the fair value of the RSU at grant date as compensation expense over the vesting period and are recorded under the "Accounts payable, accrued expenses, and provisions of the Company's statement of financial position.

30.25 Pension liability

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 method.

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- 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 a plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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

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

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

30.26 Income tax

Current tax

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

Deferred tax

Deferred tax is provided, using the liability method, on all temporary differences, except to the extent that the deferred tax liability arise from the initial recognition of goodwill, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

Uncertainty over Income Tax Treatments.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. Philippine Interpretation IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The Company has no uncertain tax position as at December 31, 2020 and 2019.

30.27 Value-added Tax (VAT) and premiums tax

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

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

Premiums on insurance contracts of a life insurance Company is subject to percentage tax pursuant to the Tax Code. The net amount of VAT payable and premium tax payable to the tax authority are included as part of accounts payable and accrued expenses in the statement of financial position.

30.28 Foreign currency transactions and translations

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in Philippine Peso, which is the Company’s functional and presentation currency.

Transactions and balances

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 closing rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to the statement of income, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income, the gain or loss is then recognized net of the exchange component in other comprehensive income.

30.29 Contingencies

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

30.30 Events after the reporting period

Post year-end events that provide additional information about the Company’s position at the reporting date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, are disclosed in the financial statements when material.

30.31 Comparatives

Some comparative amounts have been restated to conform to current year presentation.

31. Subsequent Events

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

The CREATE bill which seeks to lower corporate income tax rates and to rationalize fiscal incentives had been approved by the House of Representatives on September 13, 2019 and by the Senate on the third and final reading on November 26, 2020. The bill was approved by the Bicameral Conference Committee on February 4, 2021 but has yet to be signed into law by the President of the Philippines. Under the CREATE bill, effective July 1, 2020, the more significant changes are as follows:

- Reduction of corporate income tax (CIT) rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5,000,000 and with total assets not exceeding P100 Million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and,
- MCIT rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

Since the CREATE bill has not been substantively enacted by the time the Company's financial statements were authorized for release, no disclosures were made in the Company's financial statements to reflect the potential impact of the proposed changes in corporate income tax rate.

32. Supplementary tax information under Revenue Regulations No. 15-2010

The Company reported and paid the following taxes in 2020:

(i) Premium tax

The Company is primarily engaged in the business of life insurance and paid the amount of P14,349,117 (Note 21) as percentage tax pursuant to the Tax Code and based on the amount reflected in the premiums on insurance contracts.

(ii) VAT

As of December 31, 2020, the Company recognized taxable sales from management fee revenue and output tax in the amount of P284,221,860 and P34,106,623, respectively. Output VAT payable as at December 31, 2020 amounts to P3,315,523 which is presented in taxes payable under "Accounts payable, accrued expenses, and provisions" account.

Details of input VAT in 2020 follows:

	Amounts
Beginning balance	-
Add: Current year's domestic purchases/payments for:	
Services	4,006,906
Goods other than capital goods	79,111
Capital goods subject to amortization	2,354,432
Input VAT applied against output VAT	(6,440,449)
Total input VAT	-

Excess input VAT is mainly included in deferred input VAT under "Other assets, net" account. Remaining amount is credited against the output VAT payable presented in taxes payable under "Accounts payable, accrued expenses, and provisions" account.

(iii) Custom duties and tariff

The Company does not have customs duties and tariff fees.

(iv) *Documentary Stamp Tax (DST)*

The DST paid/accrued on the following transactions are as follows:

	Base	DST
Life insurance policies (based on face amount)	125,234,372,714	2,432,170
Policy loans	29,683,472	222,626
	125,264,056,186	2,654,796

Other taxes and licenses

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

	Amounts
Mayor's permit	15,055,404
CTC	10,500
BIR annual registration	752,850
Others (IC Fees, Notarial Fees, PTR, etc.)	24,000
Total	15,842,754

The above other taxes and licenses are presented in taxes and licenses under "General and administrative expenses" account.

(v) *Withholding taxes*

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

	Paid	Accrued	Total
Tax on compensation and benefits	80,642,565	5,625,019	86,267,584
Creditable withholding taxes	57,747,828	7,742,901	65,490,729
Fringe benefit taxes	3,854,712	675,372	4,530,084
Withholding VAT	2,005,761	-	2,005,761
Final withholding taxes	6,384,279	105,359	6,489,638
Total	150,635,145	14,148,651	164,783,796

Accrued withholding taxes are included in taxes payable under "Accounts payable, accrued expenses, and provisions" account.

(vi) *Tax assessment*

Taxable years 2019, 2018, and 2017 are open tax years as at December 31, 2020. The Company has not received Preliminary and Final Assessment Notices on the open tax years.