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, 2019. 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, 2019 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
President and Chief Executive Officer

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

Allianz PNB Life Insurance, Inc.
9th Floor Allied Bank Center
6754 Ayala Avenue cor. Legaspi Street
Makati City, Philippines
Phone: (632) 8818-LIFE (5433)
Fax: (632) 8818-2701
www.allianzpnblife.ph

Allianz PNB Life Insurance, Inc.

(Formerly PNB Life Insurance, Inc.)

Financial Statements
As at and for the years ended December 31, 2019 and 2018

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.)
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, 2019 and 2018, 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, 2019 and 2018;
- the statements of income for the years ended December 31, 2019 and 2018;
- the statements of comprehensive income for the years ended December 31, 2019 and 2018;
- the statements of changes in equity for the years ended December 31, 2019 and 2018;
- the statements of cash flows for the years ended December 31, 2019 and 2018; 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.

Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 8845 2728, F: +63 (2) 8845 2806, www.pwc.com/ph

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.

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.

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 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such 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.

Imelda Dela Vega-Mangundaya
Partner
CPA Cert. No. 0090670
PTR No. 0024586, issued on January 7, 2020, Makati City
SEC A.N. (individual) as general auditors 90670-SEC, Category A; effective until March 1, 2020
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
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 September 30, 2020

Makati City
February 28, 2020

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 31 to the financial statements.

Isla Lipana & Co.

Imelda Dela Vega-Mangundaya
Partner
CPA Cert. No. 0090670
PTR No. 0024586, issued on January 7, 2020, Makati City
SEC A.N. (individual) as general auditors 90670-SEC, Category A; effective until March 1, 2020
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
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 September 30, 2020

Makati City
February 28, 2020

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

Statements of Financial Position
As at December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
ASSETS			
Cash and cash equivalents	2	777,818,232	792,321,581
Financial assets for unit-linked contracts	3	23,236,579,771	17,990,227,804
Financial assets at fair value through profit or loss	4	913,868,007	830,590,424
Available-for-sale financial assets	4	7,593,116,484	7,695,069,058
Held-to-maturity investments	4	3,447,573,117	1,265,550,049
Insurance receivables	5	73,182,774	77,469,771
Loans and receivables	6	541,687,924	468,269,205
Reinsurance assets	10	-	6,538,254
Prepayments and deposits	7	24,014,643	25,428,990
Property and equipment, net	8	185,530,919	170,182,473
Deferred tax assets, net	25	125,385,512	123,937,702
Other assets, net	9	178,416,937	178,448,434
TOTAL ASSETS		**37,097,174,320**	**29,624,033,745**
LIABILITIES			
Insurance provisions	10	10,501,264,367	8,068,781,981
Due to reinsurer		17,760,184	15,432,284
Financial liabilities for unit-linked contracts	3	23,236,579,771	17,990,227,804
Premium deposit fund	12	320,820,633	428,536,042
Accounts payable, accrued expenses, and provisions	13	1,212,660,010	1,079,193,995
Pension liability, net	24	16,124,973	1,750,015
TOTAL LIABILITIES		**35,305,209,938**	**27,583,922,121**
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	593,964,398	(447,173,938)
Remeasurement on aggregate reserves	10	(660,044,850)	338,671,340
Remeasurement on defined benefit plan	24	(31,856,433)	(26,643,207)
Retained earnings		289,901,267	575,257,429
TOTAL EQUITY		**1,791,964,382**	**2,040,111,624**
TOTAL LIABILITIES AND EQUITY		**37,097,174,320**	**29,624,033,745**

(The notes on pages 1 to 68 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, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
GROSS PREMIUMS ON INSURANCE CONTRACTS		2,818,519,008	1,904,437,560
REINSURERS' SHARE OF GROSS PREMIUMS ON INSURANCE CONTRACTS		(29,666,685)	(24,827,302)
NET INSURANCE PREMIUMS	**15**	**2,788,852,323**	**1,879,610,258**
OTHER INCOME			
Investment income	16	667,612,578	617,673,265
Referral and trust fees	3,17	240,743,627	215,714,082
Net fair value gain (loss) on financial assets at fair value through profit or loss	4	42,377,187	(38,763,620)
(Loss) gain on sale of available-for-sale financial assets, net	4	(18,673,692)	62,161,586
Miscellaneous income	18	11,934,167	15,862,167
Total other income		**943,993,867**	**872,647,480**
TOTAL REVENUE AND OTHER INCOME		**3,732,846,190**	**2,752,257,738**
BENEFITS, CLAIMS AND EXPENSES			
Gross life insurance contract benefits and claims	19	688,599,193	667,921,647
Reinsurers' share of life insurance contract benefits and claims	19	(26,822,749)	(28,440,689)
Gross change in aggregate reserves	10,19	1,532,000,437	389,792,943
Reinsurers' share of change in aggregate reserves	10,19	6,538,254	3,996,157
Gross change in incurred but not reported claims	10,19	(18,841,638)	(14,066,259)
Reinsurers' share of change in incurred but not reported claims	10,19	-	-
NET INSURANCE BENEFITS AND CLAIMS		**2,181,473,497**	**1,019,203,799**
INSURANCE EXPENSES			
Commissions and agency-related compensation	20	655,448,415	603,913,558
Salaries, wages and employee benefits	23	104,937,400	159,497,903
Taxes and licenses	21	42,509,544	30,881,298
Interest expense	9,12	9,489,521	10,883,960
Medical fees		2,725,233	2,272,250
Total insurance expenses		**815,110,113**	**807,448,969**
OTHER EXPENSES			
General and administrative expenses	22	937,660,353	743,850,066
Foreign exchange (gain) loss, net		(6,403,228)	31,650,551
Total other expenses		**931,257,125**	**775,500,617**
TOTAL INSURANCE BENEFITS, CLAIMS AND OTHER EXPENSES		**3,927,840,735**	**2,602,153,385**
(LOSS) INCOME BEFORE INCOME TAX		**(194,994,545)**	**150,104,353**
PROVISION FOR INCOME TAX	25	90,361,617	34,941,818
NET (LOSS) INCOME FOR THE YEAR		**(285,356,162)**	**115,162,535**

(The notes on pages 1 to 68 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, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
NET (LOSS) INCOME FOR THE YEAR		**(285,356,162)**	**115,162,535**
OTHER COMPREHENSIVE INCOME			
Item that will be reclassified subsequently to profit or loss			
Net unrealised gain (loss) on available-for-sale financial assets, net of tax	4	1,041,138,336	(749,919,915)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement (losses) gains on retirement plan, net of tax	24	(5,213,226)	10,152,202
Remeasurement (losses) gains on aggregate reserves, net of tax	10,19	(998,716,190)	868,362,448
Total other comprehensive income for the year, net of tax		**37,208,920**	**128,594,735**
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(248,147,242)**	**243,757,270**

(The notes on pages 1 to 68 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, 2019 and 2018
(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, 2018	**250,000,000**	**50,000,000**	**1,300,000,000**	**302,745,977**	**(529,691,108)**	**(36,795,409)**	**460,094,894**	**1,796,354,354**
COMPREHENSIVE INCOME								
Net income for the year	-	-	-	-	-	-	115,162,535	115,162,535
Other comprehensive (loss) income for the year	-	-	-	(749,919,915)	868,362,448	10,152,202	-	128,594,735
Total comprehensive (loss) income for the year	**-**	**-**	**-**	**(749,919,915)**	**868,362,448**	**10,152,202**	**115,162,535**	**243,757,270**
BALANCE AT DECEMBER 31, 2018	**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 loss 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**

(The notes on pages 1 to 68 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, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss (income)		(194,994,545)	150,104,353
Adjustments for:			
Increase in aggregate reserve for life policies, net of reinsurers' share	10	1,538,538,691	393,789,100
Depreciation and amortization	8,9,22	89,892,179	45,138,571
Unrealized foreign exchange loss	29	31,915,377	52,589,570
Net increase in restricted stock units	23	14,710,168	15,492,390
Loss (gain) on sale of available-for-sale financial assets	4	18,673,692	(62,161,586)
Net fair value (gain) loss on financial assets at fair value through profit or loss	4	(42,377,187)	38,763,620
Increase in net pension liability	23,24	11,601,840	14,241,620
Loss on termination of lease contract	8	16,482	-
Loss on disposal of fixed assets	18	582,548	775,754
Interest expense	13	2,598,378	-
Amortization of bond (discount) premium	4	(124,007,080)	70,171,073
Provision for net incurred but not reported losses	10,19	(18,841,638)	(14,066,259)
Interest income	16	(614,214,644)	(558,566,889)
Dividend income	16	(53,397,934)	(59,106,376)
Operating income before changes in operating assets and liabilities		660,696,327	87,164,941
Changes in operating assets and liabilities			
(Increase) decrease in:			
Financial assets at fair value through profit or loss		(41,307,582)	339,496,078
Financial assets for unit-linked contracts		(5,781,559,975)	(1,599,672,791)
Insurance receivables		4,283,300	(28,449,044)
Loans and receivables		(62,927,983)	(28,740,120)
Prepayments and deposits		1,414,347	(4,182,997)
Other assets		(3,814,875)	(24,768,203)
Increase (decrease) in:			
Accounts payable and accrued expenses		137,321,265	227,804,698
Financial liabilities for unit-linked contracts		5,781,559,975	1,599,672,791
Insurance provisions		1,554,160,916	22,465,916
Premium deposit fund		(1,636,756,061)	80,098,535
Due to reinsurer		2,327,900	4,379,579
Cash generated from operations		615,397,554	675,269,383
Interest income received		591,818,062	531,830,541
Dividends received		59,856,943	66,609,307
Income tax paid		(90,625,187)	(81,870,482)
Retirement contributions	24	(4,674,348)	(19,935,168)
Interest paid on leases		(2,598,378)	-
Net cash generated from operating activities		**1,169,174,646**	**1,171,903,581**

(forward)

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

Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso)

(forwarded)

	Notes	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale or maturities of available-for-sale financial assets	4	1,254,073,548	1,119,081,866
Property and equipment	8	458,870	183,463
Purchases of:			
Available-for-sale financial assets	4	(1,074,449,990)	(2,046,614,500)
Held-to-maturity investments	4	(1,238,540,000)	(360,078,000)
Property and equipment	8	(81,352,233)	(52,643,368)
Net cash used in investing activities		**(1,139,809,805)**	**(1,340,070,539)**
CASH FLOWS USED IN FINANCING ACTIVITY			
Payments of principal on leases	13	(26,844,607)	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**2,520,234**	**(168,166,958)**
CASH AND CASH EQUIVALENTS	2		
At January 1		792,321,581	952,567,015
Effect of exchange rate changes on cash and cash equivalents		(17,023,583)	7,921,524
December 31		**777,818,232**	**792,321,581**

(The notes on pages 1 to 68 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, 2019 and 2018
(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 229 employees as at December 31, 2019 (2018 - 214 employees).

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on February 19, 2020. There are no material events that occurred from February 19, 2020 to February 28, 2020.

2. Cash and cash equivalents

The account at December 31 consists of:

	Note	2019	2018
Petty cash fund		160,256	130,256
Cash in banks			
Peso-denominated		401,658,501	301,387,770
Dollar-denominated		325,999,475	189,778,955
Cash equivalents			
Peso-denominated	26	50,000,000	301,024,600
		777,818,232	792,321,581

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 0.8% to 5.80% in 2019 and 2018.

Interest income from cash in banks and cash equivalents for the year ended December 31, 2019 amounted to P576,620 and P1,167,141 (2018 - P371,375 and P3,617,667), 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, 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**

	Cash and cash equivalents	Investment securities carried at FVTPL	Accounts receivable	Accrued management fee	Seed capital (Note 4)	**Net assets**
At December 31, 2018						
Peso Multi-Sector Equity Fund	85,781,307	2,692,951,302	51,191,071	(51,919,918)	(974,951)	**2,777,028,811**
Peso Equity Fund	380,753,634	1,660,492,571	1,973,282	(13,870,187)	(3,024,130)	**2,026,325,170**
Peso Optimized Dividend Equity Fund	53,609,341	1,953,285,038	21,101,242	(23,531,667)	(864,049)	**2,003,599,905**
Dollar Global Equity Fund	26,322,128	1,602,527,363	4,568,339	(1,465,285)	(1,098,507)	**1,630,854,038**
Dollar Flexi Asia Dividend Paying Bond Fund	15,566,313	1,381,846,402	183,512	(6,043,869)	(939,876)	**1,390,612,482**
Dollar Income and Growth Fund	18,879,712	1,375,804,172	-	(4,480,008)	(1,081,288)	**1,389,122,588**
Peso Balanced Growth Fund	72,284,408	1,275,662,203	9,146,834	(5,584,978)	(2,547,048)	**1,348,961,419**
Peso Bond Fund	88,778,611	890,748,251	13,685,572	(2,515,539)	(2,134,691)	**988,562,204**
Dollar Income Optimizer	47,376	969,253,410	18,501,850	(12,034,801)	(3,520,449)	**972,247,386**
Dollar Bond Fund	26,236,223	824,851,944	15,359,436	(2,832,848)	(2,145,890)	**861,468,865**
True North Fund	23,197,480	572,564,703	62,333	(710,290)	(9,680,051)	**585,434,175**
Peso Dynasty Equity Fund	19,041,597	549,211,656	6,237,172	(223,752)	(8,569,940)	**565,696,733**
Dollar Income and Growth Dividend Paying Fund	10,016,631	529,583,205	422,268	(1,114,698)	(924,514)	**537,982,892**
Global Treasures Peso Fund	3,250,483	340,004,250	-	(136,348)	(4,881,674)	**338,236,711**
Dollar Flexi Asia Bond Fund	2,947,120	273,914,832	6,310,855	(383,252)	(1,033,301)	**281,756,254**
High Street Peso Fund	12,300,704	268,134,750	-	(573,653)	(20,709,736)	**259,152,065**
Peso Money Market Fund	49,339	34,554,358	-	(323,274)	(1,094,317)	**33,186,106**
	839,062,407	**17,195,390,410**	**148,743,766**	**(127,744,367)**	**(65,224,412)**	**17,990,227,804**

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.

VIP Summit Peso is a Peso-denominated, single-pay, 5-year unit-linked life insurance plan that was launched on July 31, 2013 and matured on August 6, 2018. Its USD variant, the VIP Summit Dollar was launched on November 6, 2013 and matured on November 14, 2018. Total fund value paid out from the maturity of VIP Summit Peso and VIP Summit Dollar amounts to P2,020,612,148.

The Company incepted 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 incepted on June 7, 2019, while Peso-Hedged Global Sustainability Fund was incepted on July 24, 2019. Peso-Hedged Asian Multi Income Plus Dividend-Paying Fund was incepted on October 4, 2019, while Fixed Index Unit-Linked Fund was incepted on September 27, 2019.

The Company launched two additional open-ended funds in 2018. These are Peso Dynasty Equity Fund and Dollar Income and Growth Dividend Paying Fund. Peso Dynasty Equity Fund was launched on February 15, 2018, while Dollar Income and Growth Dividend Paying Fund was launched on June 19, 2018.

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 P673,732,114 and P556,988,851 in 2019 and 2018, respectively (Note 15). For the year ended December 31, 2019, referral and trust fees income from variable unit-linked (VUL) policies amount to P240,743,627 (2018 - P215,714,082) (Note 17).

(a) Cash and cash equivalents

	2019	2018
Cash in banks		
Peso-denominated	48,316,083	39,665,905
Dollar-denominated	160,610,627	74,088,304
Cash equivalents		
Peso-denominated	147,750,000	699,381,000
Dollar-denominated	-	25,927,198
	356,676,710	839,062,407

(b) Investment securities carried at FVTPL

	2019	2018
Quoted equity securities		
Peso-denominated	9,544,360,195	7,518,776,058
Dollar-denominated	9,367,122,452	5,163,675,974
Equity-linked notes		
Peso-denominated	729,866,562	608,139,000
Dollar-denominated	663,733,264	1,541,818,114
Government debt securities		
Peso-denominated	1,420,624,625	1,048,774,702
Dollar-denominated	509,152,425	510,879,404
Private debt securities		
Peso-denominated	910,094,160	489,354,619
Dollar-denominated	207,646,902	313,972,539
	23,352,600,585	17,195,390,410

(c) Accounts receivable

	2019	2018
Accrued income	44,419,142	57,672,747
Other receivables	135,636,212	91,071,019
	180,055,354	148,743,766

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, 2019, the Company owns 506,241,318 (2018 - 55,211,919) outstanding number of units with net asset value of P537,569,843 (2018 - P65,224,412).

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:

	2019	2018
Financial assets at FVTPL	913,868,007	830,590,424
AFS financial assets	7,593,116,484	7,695,069,058
HTM investments	3,447,573,117	1,265,550,049
	11,954,557,608	9,791,209,531

(a) Financial assets at FVTPL

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

	Notes	2019	2018
Quoted equity securities		367,429,066	732,896,700
Investment in unit-linked funds	3		
Peso-denominated		516,274,051	20,423,876
Dollar-denominated		21,295,792	44,800,536
Derivative asset	23	8,869,098	32,469,312
		913,868,007	830,590,424

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

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

		2019	2018
Fair value gain (loss) on:			
Quoted equity securities		1,569,300	(41,574,585)
Investment in unit-linked funds		26,086,525	21,755,809
Derivative asset	23	12,787,655	5,503,998
Realized gain (loss) on sale of financial assets at FVTPL		1,933,707	(24,448,842)
		42,377,187	(38,763,620)

Dividend income from quoted equity securities amounted to P53,397,934 and P56,778,739 in 2019 and 2018, respectively (Note 16).

(b) AFS financial assets

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

	2019	2018
Government debt securities		
Peso-denominated	3,190,746,321	3,242,995,252
Dollar-denominated	1,428,318,498	1,412,621,707
Private debt securities		
Peso-denominated	2,377,127,105	2,416,085,843
Dollar-denominated	537,844,560	571,286,256
Proprietary shares	59,080,000	52,080,000
	7,593,116,484	7,695,069,058

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

	2019	2018
At January 1	7,695,069,058	7,375,478,779
Additions	1,074,449,990	2,046,614,500
Disposals	(1,181,148,205)	(1,134,507,403)
Reclassified to HTM investments	(831,724,035)	-
Amortization of bond discount/premium, net	(11,447,228)	(4,706,066)
Fair value change recycled to profit or loss	(91,599,035)	77,587,123
Fair value change in other comprehensive income	1,042,188,336	(748,194,915)
Unrealized foreign exchange (losses) gains	(102,672,397)	82,797,040
At December 31	7,593,116,484	7,695,069,058

Proceeds from the disposals of AFS financial assets amount to P1,254,073,548 and P1,119,081,866 in 2019 and 2018, respectively. Loss on sale of AFS securities for the year ended December 31, 2019 amounts to P18,673,692 (2018 - gain of P62,161,586).

Interest income from AFS debt securities amounted to P434,341,252 and P445,714,760 in 2019 and 2018, respectively (Note 16). In 2018, dividend income from AFS equity securities amounts to P2,327,637 (Note 16).

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.

Government debt securities valued at P165,591,748 and P141,792,465 as of December 31, 2019 and 2018, 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 2019. These bonds were acquired on November 12, 2019 and will mature on January 24, 2039.

The aggregate cost of AFS financial assets amounted to P6,979,044,089 and P7,919,531,948 as of December 31, 2019 and 2018, respectively.

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

	2019	2018
At January 1	(447,173,938)	302,745,977
Unrealized fair value gains (losses)	950,589,301	(670,607,792)
Tax effect	(1,050,000)	(1,725,000)
Fair value gains (losses) realized through profit or loss	91,599,035	(77,587,123)
At December 31	593,964,398	(447,173,938)

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

	2019	2018
Government debt securities		
Peso-denominated	2.80% - 14.60%	3.50% - 18.25%
Dollar-denominated	3.70% - 10.63%	3.70% - 10.63%
Private debt securities		
Peso-denominated	0.00% - 6.11%	0.00% - 7.18%
Dollar-denominated	2.63% - 7.39%	4.25% - 7.39%

(c) HTM investments

The HTM investments at December 31 consist of the following:

	2019	2018
Government debt securities		
Peso-denominated	2,807,488,994	656,625,731
Dollar-denominated	640,084,123	608,924,318
	3,447,573,117	1,265,550,049

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

	2019	2018
At January 1	1,265,550,049	946,863,714
Additions	1,238,540,000	360,078,000
Reclassification from AFS financial assets	831,724,035	-
Amortization of bond discount/premium, net	135,454,308	(65,465,007)
Foreign exchange adjustments	(23,695,275)	24,073,342
At December 31	3,447,573,117	1,265,550,049

The outstanding HTM investments mature starting 2023 to 2032. These investments carry net coupon rates that ranged from 3.70% to 10.00% as of December 31, 2019 (2018 - 2.90% to 10.63%).

Interest income from HTM investments amounted to P154,872,537 and P84,309,233 in 2019 and 2018, respectively (Note 16).

The maturity profile of the Company’s financial assets as at December 31 is presented below:

	2019		2018	
	Within 12 months	Beyond 12 months	Within 12 months	Beyond 12 months
Financial assets at FVTPL				
Derivative assets	-	8,869,098	-	32,469,312
AFS financial assets				
Government debt securities	35,028,100	3,902,038,439	76,939,200	4,591,603,049
Private debt securities	107,280,050	2,934,697,500	187,658,040	3,061,266,050
HTM government securities	-	3,175,547,798	-	1,437,810,712
	142,308,150	10,021,152,835	264,597,240	9,123,149,123

5. Insurance receivables

The account at December 31 consists of:

	2019	2018
Premiums due and uncollected	46,360,025	48,117,744
Reinsurance recoverable on paid losses	26,822,749	29,352,027
	73,182,774	77,469,771

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	2019	2018
Policy loans		277,968,545	263,832,387
Accrued income		152,496,945	135,880,824
Due from unit-linked funds		45,543,508	24,201,804
Advances to employees and agents		44,334,924	40,034,046
Other receivables	26	21,344,002	4,320,144
		541,687,924	468,269,205

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 pegged at 10% and 8%, respectively, in both 2019 and 2018. Interest income from policy loans amounted to P23,257,094 and P24,553,854 in 2019 and 2018, respectively (Note 16).

Accrued income for the years ended December 31 consists of the following:

	2019	2018
Interest income on:		
AFS financial assets	114,203,934	102,358,671
HTM investments	35,712,110	23,970,816
Cash equivalents	20,833	532,259
Dividend income	2,560,068	9,019,078
	152,496,945	135,880,824

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.

Other receivables consist of receivables from parent and advances to policyholders.

The maturity profile of the Company's loans and receivables as at December 31 is presented below:

	2019	2018
Within 12 months	541,687,924	440,847,367
Beyond 12 months	-	27,421,838
	541,687,924	468,269,205

7. Prepayments and deposits

The account at December 31 consists of:

	Note	2019	2018
Rental and other deposits	30	16,299,130	14,007,034
Prepaid rent	30	5,170,950	8,349,014
Prepayments to suppliers and service providers		2,544,563	3,072,942
		24,014,643	25,428,990

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, 2019 and 2018 (Note 30).

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

Prepayments and deposits are expected to expire 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:

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

2018	Note	Computer and office equipment	Leasehold improvements	Office premises	Furniture and fixtures	Transportation equipment	Construction in progress	Total
Cost								
January 1		79,877,459	74,120,771	-	16,821,659	38,032,741	-	208,852,630
Additions		29,280,641	60,825,874	-	2,150,998	3,387,116	-	95,644,629
Disposals		(34,240)	-	-	-	(5,058,468)	-	(5,092,708)
		109,123,860	134,946,645	-	18,972,657	36,361,389	-	299,404,551
Accumulated depreciation and amortization				-			-	
January 1		60,496,204	20,004,795	-	3,647,238	12,956,117	-	97,104,354
Depreciation	22	10,257,644	15,369,694	-	3,451,339	7,172,539	-	36,251,216
Disposals		(18,136)	-	-	-	(4,115,356)	-	(4,133,492)
		70,735,712	35,374,489	-	7,098,577	16,013,300	-	129,222,078
Net book value		38,388,148	99,572,156	-	11,874,080	20,348,089	-	170,182,473

From January 1, 2019, the Company has applied the Philippine Financial Reporting Standard (PFRS) 16, *Leases* and recognized right-of-use (ROU) assets from the lease of its various offices (see Note 30). ROU assets pertain to Office premises above.

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).

In 2019, the Company sold certain computer and office equipment and transportation equipment with a total proceeds of P458,870 (2018 - P183,462) which resulted to a loss on disposal of fixed assets amounting to P582,548 (2018 - P775,754) and is presented under “Miscellaneous income” (Note 18).

Construction in progress (CIP) at December 31, 2019 pertains to leasehold improvements under construction.

Reversal amounting to P41,120,430 pertains to certain fixed assets additions in 2018 which were not further pursued in 2019. Reversal of outstanding payable to contractor for fixed assets additions included under “Accounts payable” account as of December 31, 2018 is also made in 2019 at the same amount (Note 13).

9. Other assets, net

The account at December 31 consists of:

	2019	2018
Software, net	95,932,530	93,343,797
Agents' provident fund	42,226,682	38,339,189
Creditable withholding tax	27,622,920	28,052,314
Deferred input VAT	6,527,842	9,009,076
Office supplies	5,718,200	9,102,920
Documentary stamp tax fund	267,302	479,677
Security fund	121,461	121,461
	178,416,937	178,448,434

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.

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

	Note	Software	Intangible assets under development	Total
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
2018				
Cost				
January 1		87,249,261	-	87,249,261
Additions		53,603,430	16,370,993	69,974,423
		140,852,691	16,370,993	157,223,684
Accumulated amortization				
January 1		54,992,532	-	54,992,532
Amortization	22	8,887,355	-	8,887,355
		63,879,887	-	63,879,887
Net book value		76,972,804	16,370,993	93,343,797

Reversal pertains to certain software additions in 2018 which were not further pursued in 2019. Outstanding payable to contractor for software additions included under "Accounts payable" account amounts to P46,196,445 as of December 31, 2018 which was reversed in 2019.

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 2019, interest expense relating to the fund amounts to P107,401 (2018 - P1,135,897).

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:

	2019	2018
Aggregate reserves for life policies	10,019,340,918	7,590,177,372
Policyholders' dividends due and unpaid	308,699,178	306,159,772
Policy and contract claims payable	118,796,992	99,175,920
Provision for incurred but not reported (IBNR) claims	54,427,279	73,268,917
	10,501,264,367	8,068,781,981

(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:

	2019	2018
Gross:		
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	3,121,607,205	2,214,828,165
Partially fixed and guaranteed participating	6,803,667,801	5,259,876,817
Unit-linked (unearned cost of insurance)	94,065,912	115,472,390
Total aggregate reserves for life policies	10,019,340,918	7,590,177,372
Recoverable from reinsurers:		
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	-	6,535,036
Partially fixed and guaranteed - participating	-	3,218
Total reinsurers' share of aggregate reserves for life policies	-	6,538,254
Net:		
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	3,121,607,205	2,208,293,129
Partially fixed and guaranteed participating	6,803,667,801	5,259,873,599
Unit-linked (unearned cost of insurance)	94,065,912	115,472,390
	10,019,340,918	7,583,639,118

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

	2019			2018		
	Insurance provisions	Reinsurers' share of insurance provisions	Net	Insurance provisions	Reinsurers' share of insurance provisions	Net
Aggregate reserves for:						
Ordinary life policies	9,816,183,478	-	9,816,183,478	7,377,813,262	3,218	7,377,810,044
Group life policies	109,091,528	-	109,091,528	96,891,720	6,535,036	90,356,684
Unit-linked policies	94,065,912	-	94,065,912	115,472,390	-	115,472,390
Total aggregate reserves for life policies	10,019,340,918	-	10,019,340,918	7,590,177,372	6,538,254	7,583,639,118

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

	2019			2018		
	Insurance provisions	Reinsurers' share of insurance provisions	Net	Insurance provisions	Reinsurers' share of insurance provisions	Net
At January 1	7,590,177,372	6,538,254	7,583,639,118	7,931,845,309	10,534,411	7,921,310,898
Premiums received	2,352,106,149	29,666,685	2,322,439,464	1,460,261,778	28,915,320	1,431,346,458
Liability released for payments of death, maturities and surrender benefits and claims year	(389,495,050)	(36,204,939)	(353,290,111)	(2,164,515,805)	(33,572,185)	(2,130,943,620)
Exchange rate effect	(101,553,081)	-	(101,553,081)	136,901,570	49,555	136,852,015
Accretion of investment income	568,105,528	-	568,105,528	225,684,520	611,153	225,073,367
At December 31	10,019,340,918	-	10,019,340,918	7,590,177,372	6,538,254	7,583,639,118

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

	2019			2018		
	Insurance provisions	Reinsurers' share of insurance provisions	Net	Insurance provisions	Reinsurers' share of insurance provisions	Net
Ordinary life	2,438,370,216	(3,218)	2,438,373,434	(286,133,639)	(2,654,346)	(283,479,293)
Group life insurance	12,199,808	(6,535,036)	18,734,844	(6,543,613)	(1,341,811)	(5,201,802)
Unit-linked	(21,406,478)	-	(21,406,478)	(48,990,685)	-	(48,990,685)
Interest rate change	(998,716,190)	-	(998,716,190)	868,362,448	-	868,362,448
Foreign exchange revaluation	101,553,081	-	101,553,081	(136,901,568)	-	(136,901,568)
At December 31	1,532,000,437	(6,538,254)	1,538,538,691	389,792,943	(3,996,157)	393,789,100

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

	2019	2018
At January 1	338,671,340	(529,691,108)
Effect of remeasurement (losses) gains on aggregate reserves, net	(998,716,190)	868,362,448
	(660,044,850)	338,671,340

(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. They continue to earn interest ranging from 2.00% to 3.75% (2018 - 3.25% to 3.75%) for the account of the policyholder, which depends on the dividend accumulation rate declared by the Company, and is withdrawable in full at the policyholders' discretion.

(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	2019	2018
At January 1		172,444,837	176,600,791
Arising during the year	19	183,173,604	153,875,730
Reversal of IBNR	19	(18,841,638)	(14,066,259)
Paid during the year	19	(163,552,532)	(133,348,320)
Written off claims during the year	18	-	(10,617,105)
At December 31		173,224,271	172,444,837

The written off claims in 2018 are long outstanding claims related to group policies with a bank that were not claimed by the bank's borrowers with multiple coverage.

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 Changes in valuation methodology

In August 2013, "The Amended Insurance Code," introduced a number of significant changes, one of which is the change in the valuation of the life insurance companies' policy liabilities, which under Section 216, should be prescribed by the Commissioner of the IC in accordance with internationally accepted actuarial standards. On October 30, 2014, the IC issued Circular Letter No. 2014-42-A, "Valuation for Life Insurance Policy Reserves," pursuant to which life insurance companies and mutual benefit associations will be changing the standards of valuation of their life insurance reserves for traditional life products from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV). For variable life products, there were no changes in valuation standards, and shall be calculated using unearned cost of insurance basis. The latest circular, IC Circular Letter No. 2016-66, pertaining to revised guidelines on the "Valuation for Life Insurance Policy Reserves" was issued last December 28, 2016. Notable changes from Circular Letter No. 2014-42-A is the use of a moving average of the 20-year government bond yield rate for the discounting of the cash flows with duration of more than 20 years.

After requiring several parallel runs from periods December 2014 to December 2016, the Commission issued IC Circular No. 2016-69 on December 28, 2016 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 those changes was effective starting January 1, 2017.

The more significant changes introduced by the IC in the CL 2016-66 include, among others, the following:

(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.

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 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*

The mortality assumption is based on rates of mortality that are appropriate to the nature of the risks covered based on the Company's actual experience.

- *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.

As of December 31, 2019, IC Circular Letter 2019-75, the discount rates to be used for insurance liability cash flows beyond 20 years were determined using the one-year moving average of the 20-year government bond yield rate. 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 being monitored by the Company is presented as follows:

	Impact on income before income tax and equity Increase/(decrease)		
	Change in assumption	2019	2018
Mortality	+10%	(22,847,498)	(14,626,570)
	-10%	22,968,295	14,468,073
Interest rate	+100 bps	841,108,644	504,044,236
	-100 bps	(1,138,424,384)	(888,625,076)
Expense	+10%	(42,530,775)	(24,563,548)
	-10%	42,323,502	24,217,124
Lapse and/or persistency	+10%	(34,778,770)	(25,235,634)
	-10%	33,211,012	23,558,040

11.5 Reinsurance - assumptions and methods

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts receivable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented under “Reinsurance assets” 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 funds held for policyholders which could be applied as payment for any future unpaid premiums. The accumulated fund shall not exceed the total future premium payments under the policy. As at December 31, 2019 and 2018, premium deposit fund amounted to P320,820,633 and P428,536,042, respectively.

The fund bears interest at rates ranging from 1.50% to 2.50% in 2019 and 2018. Interest expense of the Company charged against statement of income amounted to P9,382,120 and P9,748,063 in 2019 and 2018, respectively.

13. Accounts payable, accrued expenses, and provisions

The account at December 31 consists of:

	Notes	2019	2018
Accrued expenses	20, 22, 23	407,694,869	416,654,653
Premium holding account		281,606,836	266,941,617
Accounts payable		253,967,761	194,360,643
Payable to policyholders		210,726,670	142,737,593
Lease liability		34,630,168	-
Taxes payable		22,999,814	23,840,024
Due to unit-linked fund		1,033,892	34,659,465
		1,212,660,010	1,079,193,995

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 unallocated payment of policyholders which can be withdrawn anytime.

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.

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.

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 (Note 27.2.a).

The movement in the lease liability at December 31, 2019 is as follows:

	Notes	Amount
As at January 1, 2019	30	51,665,717
Principal and interest payments	30	(29,442,985)
Non-cash changes		
Additions during the year		10,191,453
Termination of lease contract	8	(382,395)
Interest expense	22,30	2,598,378
As at December 31, 2019		34,630,168

14. Capital stock; Contingency surplus

(a) Capital stock

The account at December 31, 2019 and 2018 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, 2019 and 2018.

15. Net insurance premiums

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

	Note	2019	2018
Gross premiums			
Ordinary life insurance		1,983,189,783	1,184,697,902
Group life insurance		161,597,111	162,750,807
Unit-linked	3	8,002,947,595	8,222,394,687
Total gross premiums on insurance contracts		10,147,734,489	9,569,843,396
Premiums allocated to unit-linked insurance investment funds	3	(7,329,215,481)	(7,665,405,836)
		2,818,519,008	1,904,437,560

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

	2019	2018
Reinsurers' share of gross premiums on insurance contracts		
Ordinary life insurance	25,082,480	16,523,827
Group life insurance	4,584,205	8,303,475
	29,666,685	24,827,302

16. Investment income

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

	Notes	2019	2018
Interest income on:			
AFS financial assets	4	434,341,252	445,714,760
HTM investments	4	154,872,537	84,309,233
Policy loans	6	23,257,094	24,553,854
Cash equivalents	2	1,167,141	3,617,667
Cash in banks	2	576,620	371,375
Dividend income	4	53,397,934	59,106,376
		667,612,578	617,673,265

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 1.75% in 2019 (2018 - 0.50% to 1.70%).

18. Miscellaneous income

Miscellaneous income for the years ended December 31 consists of:

	2019	2018
Written off claims payable	-	10,617,105
Loss on disposal of fixed assets	(582,548)	(775,754)
Reinstatement charges	1,081,094	553,428
Others	11,435,621	5,467,388
	11,934,167	15,862,167

In 2018, written off claims payable pertains to long outstanding group life policies that were considered by management as no longer valid and existing obligation based on its current review and assessment.

Others consist of accretion of interest on rental deposits (Note 7) and interest from advances to employees and agents. In 2019, the account also includes various costs charged to the Parent Company at 5% mark-up for the Company's marketing management (Note 26). In 2018, the account also consists of related payables from the Company's long outstanding checks that were closed to income.

19. Claims and policyholder benefits

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

	2019	2018
Gross life insurance contract benefits and claims:		
Ordinary life insurance	497,702,980	517,562,770
Group life insurance	139,213,978	117,189,021
Unit-linked	51,682,235	33,169,856
	688,599,193	667,921,647
Reinsurers' share of gross life insurance contract benefits and claims on group life insurance	(26,822,749)	(28,440,689)
	661,776,444	639,480,958

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

	Note	2019	2018
Policyholder benefits		458,321,484	469,664,107
Claims and other benefits	10	183,173,604	153,875,730
Dividends to policyholders		20,281,356	15,941,121
		661,776,444	639,480,958

Changes in the provision for IBNR amounts to a reversal of P18,841,638 for the period ended December 31, 2019 (2018 - reversal of P14,066,259) (Note 10).

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

	Note	2019	2018
Policyholder benefits		415,576,717	449,651,030
Claims and other benefits	10	163,552,532	133,348,320
Dividends to policyholders		17,741,950	3,385,511
		596,871,199	586,384,861

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:

	2019	2018
Commissions and bonuses	505,708,886	445,176,910
Service fee	149,739,529	158,736,648
	655,448,415	603,913,558

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:

	2019	2018
Premium tax	39,889,061	27,247,193
Documentary stamp tax	2,620,483	3,634,105
	42,509,544	30,881,298

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	2019	2018
Salaries, wages and employee benefits	23	380,239,733	281,702,493
Meetings and marketing campaigns		135,204,901	139,871,722
Professional fees		99,464,123	66,322,381
Depreciation and amortization	8,9	89,892,179	45,138,571
Equipment maintenance		55,419,014	50,427,858
Travel		25,638,890	34,290,500
Recruitment		24,136,468	13,733,960
Utilities		22,684,199	18,764,485
Communication		20,151,155	22,129,720
Taxes and licenses		20,137,107	13,746,457
Printing and supplies		11,681,401	11,542,099
Entertainment, amusement and recreation		8,752,208	6,537,808
Rent	30	7,846,549	23,979,753
Membership fees		5,578,951	1,780,641
Interest expenses	13,30	2,598,378	-
Others		28,235,097	13,881,618
		937,660,353	743,850,066

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	2019	2018
Salaries and wages		381,720,947	356,002,435
Net increase in restricted stock units		14,710,168	15,492,390
Net pension expense	24	11,601,840	14,241,620
Staff meetings and activities		15,264,597	7,797,283
Life and health insurance		8,707,932	4,195,393
Social security costs		5,608,676	4,134,892
Other benefits		47,562,973	39,336,383
		485,177,133	441,200,396

Other benefits include sick leave conversion, rewards, and expenses in employee events.

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	2019	2018
Insurance expenses		104,937,400	159,497,903
General and administrative expenses	22	380,239,733	281,702,493
Total salaries, wages and employee benefits		485,177,133	441,200,396

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 P14,710,168 and P15,492,390 in 2019 and 2018, respectively (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 P64,675,827 and P49,965,659 as of December 31, 2019 and 2018, respectively (Note 13).

Reconciliation of outstanding grants as of December 31 follows:

	2019	2018
January 1	3,767	2,942
Granted	1,294	1,616
Exercise (Release)	(4,191)	(791)
December 31	870	3,767

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, 2019 and 2018:

	2019	2018
Share price	€187.59	€183.80
Dividend yield	5.20%	4.80%
Expected volatility	19.30%	20. 50%
Risk-free interest rate	(0.20%)	(0.10%)

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, 2019 and 2018 amounted to P8,669,098 and P32,469,312, respectively (Note 4). The increase in fair value recorded under "Net fair value (loss) gain on financial assets at FVTPL" amounted to P12,787,655 and P5,503,998 in 2019 and 2018, 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 benefit expense

	Note	2019	2018
Current service cost		11,472,339	13,128,922
Net interest cost		129,501	1,112,698
Net pension expense	23	11,601,840	14,241,620

(b) Remeasurement adjustments

	2019	2018
Actuarial loss (gain) on defined benefit obligation	7,842,434	(18,544,642)
Actuarial (gain) loss on plan assets	(394,968)	4,041,496
Remeasurement losses (gains) for the year	7,447,466	(14,503,146)
Deferred income tax effect	(2,234,240)	4,350,944
Remeasurement losses (gains), net of tax	5,213,226	(10,152,202)

(c) Net pension liability

	2019	2018
Present value of defined benefit obligation	80,972,900	61,762,081
Fair value of plan assets	(64,847,927)	(60,012,066)
Net pension liability	16,124,973	1,750,015

Changes in the present value of defined benefit obligation follow:

	2019	2018
Defined benefit obligation, beginning of year	61,762,081	68,633,263
Current service cost	11,472,339	13,128,922
Interest cost	4,570,394	3,479,706
Benefits paid	(4,674,348)	(4,935,168)
Remeasurements in other comprehensive income		
Actuarial changes arising from changes in financial assumptions	14,609,213	(22,551,104)
Actuarial changes arising from experience adjustments	(6,766,779)	4,006,462
Defined benefit obligation, end of year	80,972,900	61,762,081

Below is the schedule of vested and non-vested benefits:

	2019	2018
Vested	-	4,715,262
Non-vested	80,972,900	57,046,819

Changes in the fair value of plan assets follow:

	2019	2018
Fair value of plan assets, beginning of year	60,012,066	46,686,554
Contribution	4,674,348	19,935,168
Interest income	4,440,893	2,367,008
Benefits paid	(4,674,348)	(4,935,168)
Actuarial gain (loss) on plan asset	394,968	(4,041,496)
Fair value of plan assets, end of year	64,847,927	60,012,066

Expected contributions to the retirement benefit plan for the year ending December 31, 2019 amounts to P16.00 million (2018 - P4.67 million)

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

	2019	2018
Discount rate	4.95%	7.40%
Rate of salary increases	6.00%	7.00%

Mortality table and disability table used in the valuation in 2019 and 2018 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:

	2019	2018
Cash	2,868	3,363
Fixed-income securities	40,267,559	39,140,090
Unit investment trust funds	18,381,262	14,880,955
Equity securities	6,095,846	6,637,430
Accrued interest	299,400	305,156
Other assets	17,642	17,642
Total assets	65,064,577	60,984,636
Liabilities	216,650	972,570
Net assets	64,847,927	60,012,066

Pension plan assets of the retirement plan include investments in PNB's unit investment trust funds amounting to P18.38 million at December 31, 2019 (2018 - P14.8 million). Unrealized loss coming from these investments amount to P0.20 million in 2019 (2018 - P0.53 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		
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)

	Impact on defined benefit obligation		
2018	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/- 0.50%	(3,770,448)	2,078,206
Salary increase rate	+/- 0.25%	2,021,566	(3,890,434)
Turnover rate	+/- 10.00%	3,126,986	(3,126,986)

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	
	2019	2018
Date of retirement		
Payable in the next 5 years	2%	1%
Payable in the next 6 - 10 years	26%	25%
Payable beyond 10 years	72%	74%

The average duration of the defined benefit obligation as of December 31, 2019 and 2018 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:

	2019	2018
Current		
Final tax	81,691,599	73,046,581
MCIT	8,933,588	8,823,901
Deferred	(263,570)	(46,928,664)
	90,361,617	34,941,818

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

	Note	2019	2018
Tax effects of:			
Accrued expenses		110,455,902	77,321,496
Unamortized excess contribution		5,392,233	6,248,388
Net pension liability		13,652,757	11,418,517
Net increase in restricted stock units		4,413,051	4,647,717
Unrealized foreign exchange loss		1,277,866	30,872,783
Deferred tax assets	28	135,191,809	130,508,901
Tax effects of:			
Unrealized gain on derivative asset		(3,836,297)	(1,651,199)
Unrealized fair value changes in fluctuation of AFS		(5,970,000)	(4,920,000)
Deferred tax liabilities		(9,806,297)	(6,571,199)
Deferred tax assets, net		125,385,512	123,937,702

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

	2019	2018
At January 1	123,937,702	83,084,982
Amounts credited to statement of income	263,570	46,928,664
Amounts credited to (charged against) other comprehensive income	1,184,240	(6,075,944)
At December 31	125,385,512	123,937,702

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:

	2019	2018
NOLCO	949,201,363	396,104,328
MCIT	27,089,088	22,404,104

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

Year of Payment	Year of Expiry	2019	2018
2019	2022	663,486,222	-
2018	2021	270,175,951	270,175,951
2017	2020	15,539,190	15,539,190
2016	2019	110,389,187	110,389,187
		1,059,590,550	396,104,328
Expired NOLCO		(110,389,187)	-
		949,201,363	396,104,328

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

Year of Payment	Year of Expiry	2019	2018
2019	2022	8,933,588	-
2018	2021	8,823,901	8,823,901
2017	2020	9,331,599	9,331,599
2016	2019	4,248,604	4,248,604
2015	2018	-	5,839,000
		31,337,692	28,243,104
Expired MCIT		(4,248,604)	(5,839,000)
		27,089,088	22,404,104

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

	2019	2018
Statutory income tax rate	30.00	30.00
Add (deduct) tax effects of:		
Interest income subjected to final tax	(20.95)	(24.33)
Income exempt from tax	(8.22)	(11.81)
Temporary deductible differences for which no deferred tax asset is recognized	4.58	5.88
Nondeductible expenses	100.92	23.54
Effective income tax rate	106.33	23.28

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, 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
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
Allianz Reinsurance Asia Pacific (ARAP)			
Reinsurance	(3,962,596)	(498,724)	- 90-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Category			
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

	Transactions	Outstanding balances	Terms and conditions
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
Key management compensation			
Salaries and other short-term benefits	99,719,331	-	
RSUs	1,922,512	16,815,703	
Relocation benefits	299,324	-	
Retirement cost	3,760,845	-	
Total	**1,201,921,715**	**845,150,953**	

As at and for the year ended December 31, 2018:

	Transactions	Outstanding balances	Terms and conditions
Parent Company			
Allianz SE			
Net increase in RSU, including fair value adjustments (Note 23)	15,492,390	49,965,659	- 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)	3,955,441	32,469,312	- Noninterest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Significant investor			
PNB			
Savings and current accounts	341,254,182	341,254,182	- Interest-bearing at 0.10% - Unsecured and unguaranteed
Time deposits (Note 2)	300,000,000	300,000,000	- Interest-bearing at 3.00% - Unsecured and unguaranteed
Retirement fund	4,935,168	60,012,066	- Refer to Note 24
Referral fees	144,332,627	40,143,514	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Rent expense	22,385,448	-	- 30-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Premiums	2,669,813	461,693	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Claims	16,978,786	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Entities under common control			
Allianz Investment Management Singapore (AIMS)			
Investment Management	4,006,440	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Technology (Thailand) Co. Ltd.			
EDP-Software costs	-	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Software Maintenance costs	6,469,281	442,426	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Asia Pacific			
Consultancy Fee	39,257,989	1,428,148	- 30-day;non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Reinsurance Asia Pacific (ARAP)			
Reinsurance	4,549,178	1,152,197	- 90-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross

	Transactions	Outstanding balances	Terms and conditions
Category			
Other related parties			
PNB Savings			
Savings and current accounts	5,045,842	5,045,842	- Interest-bearing at 0.10% - Unsecured and unguaranteed
Referral Fees	14,290,367	675,948	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Premiums	70,724,496	7,775,180	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Claims	450,022	450,022	- 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	33,000	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
PNB General Insurers, Inc.			
Premiums	153,016	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
PNB Securities, Inc.			
Premiums	7,955	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Key management compensation			
Salaries and other short-term benefits	74,069,388	-	
RSUs	9,988,391	(1,035,671)	
Relocation benefits	-	-	
Retirement cost	4,221,405	-	
Total	**1,085,281,355**	**840,240,518**	

27. Summary of Significant Accounting Policies

27.1 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.

27.2 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, 2019:

- PFRS 16, *Leases* replaces the guidance of PAS 17, *Leases* that relate to the accounting by lessees and the recognition of almost all leases in the balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the ROU asset) and a lease liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  On adoption of PFRS 16, the Company recognized a lease liability and ROU assets in relation to leases which had previously been classified as 'operating leases' under the principles of PAS 17. The liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at January 1, 2019.

  The associated ROU assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at January 1, 2019. The reconciliation of lease liability as at January 1, 2019 is presented in Note 30.b.

  The initial value of the ROU assets is determined as follows:

	Amount
Amount equal to lease liability at January 1, 2019 under PFRS 16	51,665,717
Adjusted for: Lease prepayments recognized as at December 31, 2018	4,047,028
	55,712,745

  In applying PFRS 16 for the first time, the Company used the following practical expedients permitted by the standard:

  i) For all contracts entered into before January 1, 2019 and that were previously identified as leases under PAS 17, Leases, and IFRIC 4, 'Determining whether an arrangement contains a Lease', the Company has not reassessed if such contracts contain leases under PFRS 16; and
  ii) On a lease-by-lease basis, the Company has:
     a) applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
     b) relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
     c) accounted for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
     d) excluded initial direct costs for the measurement of the ROU asset at the date of initial application; and
     e) used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

  The effects of adoption of PFRS 16 on the Company's financial statements as at January 1, 2019 are as follows:

	Increase
Property and equipment, net	55,712,745
Accounts payable, accrued expenses, and provisions	51,665,717

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*. It has been clarified previously that PAS 12, *Income taxes* not PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, applies to accounting for uncertain income tax treatments. Philippine Interpretation IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  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 adoption of the above interpretation did not have a significant impact on the Company's financial statements since the Company has no uncertain tax position.

(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, 2019 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. 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 29.

27.3 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 other 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.

27.4 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.

27.5 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.

27.6 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.

27.7 Financial instruments

27.7.1 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.

27.7.2 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.

27.7.3 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, 2019 and 2018. 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, 2019 and 2018, 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 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.

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).

27.7.4 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.

27.8 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.

27.9 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.

27.10 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.

27.11 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.

27.12 Reinsurance

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent recoverable amounts from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to insurance receivables.

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.

27.13 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.

Acquired computer and application software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized using the straight-line method over their estimated useful lives, which do not exceed five years. Intangible assets under development are not amortized until such time that the relevant assets are completed and are ready for intended use.

27.14 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.

27.15 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.

27.15.1 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 29).

27.15.2 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."

27.15.3 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.

27.16 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.

27.17 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.

27.18 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.

27.19 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.

27.20 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 collections received from unit-linked policies 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.

27.21 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.

27.22 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.

Until December 31, 2018, 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.

27.23 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.

27.24 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 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.

27.25 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.

27.26 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.

27.27 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.

27.28 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.

27.29 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.

27.30 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.

27.31 Comparatives

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

28. 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

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.

The carrying value of HTM investments amounted to P3,447,573,117 and P1,265,550,049 as of December 31, 2019 and 2018, respectively (Note 4).

AFS investments

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, 2019 and 2018. No allowance for impairment of AFS financial assets has been assessed and recognized for 2019 and 2018.

Financial assets and liabilities for unit-linked contracts

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

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, 2019, investments in structured notes amount to P1,393,599,826 (2018 - P2,149,957,114). Sensitivity information are further disclosed in Note 29.

<u>Estimates</u>

Aggregate reserves for life policies

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 P10,019,340,918 and P7,590,177,372 as of December 31, 2019 and 2018, respectively (Note 10).

Recognition of deferred tax assets

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 P135,191,809 and P130,508,901 as of December 31, 2019 and 2018, respectively (Note 25).

As at December 31, 2019 and 2018, the Company has unrecognized deferred tax assets amounting to 976,290,451 and 418,508,432, respectively. The unrecognized deferred tax assets comprised both NOLCO and MCIT

Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon the analysis of potential results (Note 30).

29. 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, asset depreciation, 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 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 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. 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

As of December 31, 2019 and 2018, the Company's statutory net worth amounted to P1,567,929,899 and P1,721,143,317, 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.

	2019	2018
Available capital	1,794,320,521	1,884,949,708
RBC requirement	641,141,086	626,537,858
RBC Ratio	280%	301%

(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 wide spread 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. For "group" lives reinsured, retention limit is P2 million, and the risk is reinsured under an excess of loss arrangement. The Company's risk retention is lower for medically impaired or substandard lives, which involves higher risks.

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).

			2019			
			Before reinsurance		After reinsurance	
Age bands (in years)	Policy count	Face amount (in thousands)	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

			2018			
			Before reinsurance		After reinsurance	
Age bands (in years)	Policy count	Face amount (in thousands)	NAAR (in thousands)	Concentration (%)	NAAR (in thousands)	Concentration (%)
0-15	16,208	7,302,772	4,609,386	13	4,355,911	13
16-25	12,421	6,263,765	4,123,733	11	3,810,973	12
26-35	19,130	9,588,465	6,519,978	18	6,053,441	18
36-45	21,688	12,882,381	8,114,329	22	7,418,051	22
46-55	18,587	13,936,217	7,826,298	21	6,773,144	20
56-65	10,277	8,941,355	4,214,369	12	3,880,562	12
66-75	1,882	2,388,656	1,140,848	3	1,024,274	3
76 and above	7	19,000	18,979	-	18,979	-
	100,200	61,322,611	36,567,920	100	33,335,335	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 mortality decrement only, without considering possibility of lapses. 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:

	2019				
	Carrying value	Level 1	Level 2	Level 3	Total fair value
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	537,569,843	-	-	537,569,843
Financial assets for unit-linked contracts	23,236,579,771	21,887,527,814	-	1,349,051,957	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	29,447,630,279	946,882,027	1,349,051,957	31,743,564,263
Financial liabilities for unit-linked contracts	23,236,579,771	21,887,527,814	-	1,349,051,957	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	11,425,889,336	946,882,027	-	12,372,771,363

	2018				
	Carrying value	Level 1	Level 2	Level 3	Total fair value
Financial assets at FVTPL					
Quoted equity securities	732,896,700	732,896,700	-	-	732,896,700
Derivative asset	32,469,312	-	32,469,312	-	32,469,312
Investment in unit-linked funds	65,224,412	65,224,412	-	-	65,224,412
Financial assets for unit-linked contracts	17,990,227,804	15,840,270,690	-	2,149,957,114	17,990,227,804
AFS financial assets					
Government debt securities	4,655,616,959	4,655,616,959	-	-	4,655,616,959
Private debt securities	2,987,372,099	2,348,050,111	639,321,988	-	2,987,372,099
Equity securities	52,080,000	52,080,000	-	-	52,080,000
Total financial assets carried at fair value	26,515,887,286	23,694,138,872	671,791,300	2,149,957,114	26,515,887,286
Financial liabilities for unit-linked contracts	17,990,227,804	15,840,270,690	-	2,149,957,114	17,990,227,804
Financial assets for which fair values are disclosed					
HTM investments - government securities	1,265,550,049	1,437,810,711	-	-	1,437,810,711
	9,791,209,531	9,291,678,893	671,791,300	-	9,963,470,193

During the reporting period ended December 31, 2019 and 2018, 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. 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.

(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.

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 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
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
2018	Peso-denominated	Bank CDS levels	16.715 - 83.116 bps	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P7,424,420
	Dollar-denominated	Bank CDS levels	17.733- 49.276 bps	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P5,055,640

Notes: Range is from lower to upper bound in 2018 and 2019.
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
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
2018	Peso-denominated	PHP IRS	3.5375% - 6.0375%	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P7,424,420
	Dollar-denominated	ROP CDS (5Y)	1.9244%- 2.9612%	50 bps increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the note by P5,055,640

Notes: Range is from lower to upper bound in 2018 and 2019.
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	VIP Summit - Peso	VIP Summit - Dollar	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	-	-	91,168,561	87,798,537	33,929,025	220,988,551
	-	-	-	663,733,264	427,802,787	302,063,775	1,393,599,826

**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	VIP Summit - Peso	VIP Summit - Dollar	True North	Global Treasures	High Street Peso	Total
Beginning	985,904,299	1,867,138,728	492,284,835	599,665,486	411,549,601	307,646,300	4,664,189,249
Purchases	-	-	-	-	-	-	-
Maturities	(65,756,549)	(2,048,002,456)	(530,006,400)	-	-	-	(2,643,765,405)
Revaluation*	49,105,660	180,863,728	37,721,565	(27,100,783)	(71,545,351)	(39,511,550)	129,533,269
	969,253,410	-	-	572,564,703	340,004,250	268,134,750	2,149,957,113

**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 six 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, 2019 and 2018, the Company's capital guaranteed products are still performing above set expectations.

As of December 31, 2019 and 2018, 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.

	Neither past due nor impaired			
2019	Investment grade	Non-investment grade satisfactory	Past due or impaired	Total
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	3,414,041,415	-	-	3,414,041,415
HTM investments - government securities	3,447,573,117	-	-	3,447,573,117
Loans and receivables				
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
Total financial assets	15,380,218,543	433,129,375	-	15,813,347,918

**Excluding petty cash fund.*

2018	Neither past due nor impaired Investment grade	Non-investment grade satisfactory	Past due or impaired	Total
Financial assets				
Cash and cash equivalents*	792,191,325	-	-	792,191,325
Insurance receivables	-	77,469,771	-	77,469,771
AFS financial assets				
Government debt securities	4,655,616,959	-	-	4,655,616,959
Private debt securities	2,987,372,099	-	-	2,987,372,099
Financial assets at FVTPL				
Derivative asset	32,469,312	-	-	32,469,312
Financial assets for unit-linked contracts	3,350,787,437	-	-	3,350,787,437
HTM investments - government securities	1,265,550,049	-	-	1,265,550,049
Loans and receivables				
Policy loans	-	263,832,387	-	263,832,387
Accrued income	135,880,824	-	-	135,880,824
Due from unit-linked fund	24,201,804	-	-	24,201,804
Advances from employees and agents	-	40,034,046	-	40,034,046
Other receivables	-	4,320,144	-	4,320,144
Reinsurance asset	-	6,538,254	-	6,538,254
Rental and other deposits	-	14,007,034	-	14,007,034
	13,244,069,809	406,201,636	-	13,650,271,445

**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 except for certain securities considered impaired. The fair value of impaired equity securities amounted to nil as of December 31, 2019 and 2018. Hence, no impairment losses were recognized for the years ended December 31, 2019 and 2018.

(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. We receive a large part of premiums before payments of claims or policy benefits are required, generating solid cash flows from our insurance operations. This allows us to invest the funds in the interim to create investment income. Our insurance operations also carry a high proportion of liquid investments, which can be converted into cash to pay for claims. Generally, our 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 our 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 our 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.

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	1,212660,010
Financial liabilities for unit-linked contracts	23,236,579,771	-	-	-	23,236,579,771	23,236,579,771
Total financial liabilities	24,856,821,311	1,705,673,236	1,029,394,425	17,410,444,423	45,002,333,395	35,289,084,965

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

2018	Up to a year*	1 to 3 years	3 to 5 years	Over 5 years	Total undiscounted liabilities	Present value of liabilities
Insurance provisions	392,818,866	671,093,671	1,429,061,373	15,975,759,209	18,468,733,119	8,068,781,981
Due to reinsurer	15,432,284	-	-	-	15,432,284	15,432,284
Premium deposit fund	428,536,042	-	-	-	428,536,042	428,536,042
Accounts payable and accrued expenses	1,079,193,995	-	-	-	1,079,193,995	1,079,193,995
Financial liabilities for unit-linked contracts	17,990,227,804	-	-	-	17,990,227,804	17,990,227,804
Total financial liabilities	19,906,208,991	671,093,671	1,429,061,373	15,975,759,209	37,982,123,244	27,582,172,106

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

We manage liquidity risk through our liquidity risk assessment and asset/liability management processes, where we reconcile liquidity sources (e.g., cash from premiums and investments) and liquidity needs (e.g., payments due to insurance claims and expenses) under our best-estimate plan as well as under hypothetical adverse scenarios. In our investment strategy, we 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.

(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.

	2019		2018	
	US$	PHP	US$	PHP
Financial assets				
Cash and cash equivalents	6,438,224	325,999,475	3,609,897	189,778,955
Investment in unit-linked funds	153,995	7,797,542	204,333	10,743,825
Financial assets for unit-linked contracts	202,412,635	10,249,163,791	134,348,507	7,064,044,503
AFS financial assets	38,830,119	1,966,163,058	37,731,228	1,983,907,963
HTM investments	12,641,140	640,084,123	11,580,910	608,924,318
Accrued interest	931,738	47,178,532	981,805	51,623,313
Policy loans, including due and uncollected premiums	1,129,623	57,198,473	1,133,694	59,609,612
	262,537,474	13,293,584,994	189,590,374	9,968,632,489
Financial liabilities				
Aggregate reserves on life policies	49,504,872	2,506,679,194	47,902,011	2,518,687,762
Premium deposit fund	382,457	19,365,695	5,018,506	263,873,050
Financial liabilities for unit-linked contracts	202,412,635	10,249,163,791	134,348,507	7,064,044,503
	252,299,964	12,775,208,680	187,269,024	9,846,605,315
	10,237,510	518,376,314	2,321,350	122,027,174

The foreign exchange rate used in 2019 and 2018 were P50.64 and P52.58 to US$1, respectively.

Unrealized foreign exchange loss recognized in the statements of income under Foreign exchange loss, net amounted to P31,915,377 and P52,589,570 in 2019 and 2018, 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
2019	US$	0.25%	1,295,941
		(0.25%)	(1,295,941)
2018	US$	0.25%	398,226
		(0.25%)	(398,226)

The analysis 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 financial position of the Company (due to changes in the fair value of currency sensitive monetary assets and liabilities).

Period	Structured notes	Increase (Decrease) in variable	Impact on Financial assets for unit-linked contracts
2018	Dollar Income Optimizer	100 bps	9,226,926
		(100 bps)	(9,226,926)
	VIP Summit – USD	N/A	N/A
		N/A	N/A

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 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 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).

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

2018	Change in variables	Impact on equity
Peso	+0.25%	(82,838,752)
US Dollar	+0.25%	(28,776,937)
Peso	-0.25%	84,833,602
US Dollar	-0.25%	29,642,416

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.

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.

2019	Range of Interest rate	Maturity: Up to a year*	Maturity: 1-3 years	Maturity: 3-5 years	Over 5 years	Total
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.*

2018	Range of Interest rate	Maturity: Up to a year*	Maturity: 1-3 years	Maturity: 3-5 years	Over 5 years	Total
AFS financial assets						
Government debt securities						
Peso-denominated	3.50%-18.25%	5,015,516	-	96,492,922	3,141,486,814	3,242,995,252
Dollar-denominated	3.70%-10.63%	79,286,644	145,968,994	-	1,187,366,069	1,412,621,707
Private debt securities						
Peso-denominated	0.00%-7.18%	38,074,539	113,957,781	753,607,573	1,510,445,950	2,416,085,843
Dollar-denominated	4.25%-7.39%	183,501,657	147,433,742	113,347,863	127,002,994	571,286,256
Total AFS financial assets		305,878,356	407,360,517	963,448,358	5,966,301,827	7,642,989,058

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

(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 FVTPL financial assets. The fair values of equity investments classified as financial assets at FVTPL as of December 31, 2019 and 2018 amounted to P367,429,066 and P732,896,700, 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.

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

2018	Change in variables	Impact on equity/profit or loss after tax
PSEi	7.50%	69,552,364
PSEi	-7.50%	(69,552,364)

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. 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.

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, 2019 and 2018, 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, 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	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

* *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.*

	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, 2018				
Cash and cash equivalents	792,191,325	-	-	-
Financial assets for unit-linked contracts	-	-	17,990,227,804	-
Financial assets at fair value through profit or loss	-	-	830,590,424	(38,763,620)
Available-for-sale financial assets	7,642,989,058	(766,069,915)	52,080,000	16,150,000
Held-to-maturity investments	1,437,810,711	-	-	-
Loans and receivables	204,436,818	-	-	-
Rental and other deposits	14,007,034	-	-	-
	10,091,434,946	(766,069,915)	18,872,898,228	(22,613,620)

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 income 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, 2019 and 2018. 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			
	Investment grade	Non-investment grade	Past due or impaired	Total
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

	Neither past due nor impaired			
	Investment grade	Non-investment grade	Past due or impaired	Total
December 31, 2018				
Cash and cash equivalents	792,191,325	-	-	792,191,325
Available-for-sale financial assets	7,642,989,058	-	-	7,642,989,058
Held-to-maturity investments	1,265,550,049	-	-	1,265,550,049
Loans and receivables	160,082,628	44,354,190	-	204,436,818
Rental and other deposits	-	14,007,034	-	14,007,034
	9,860,813,060	58,361,224	-	9,919,174,284

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, 2019 and 2018, approximately equal the respective carrying amounts.

The Company did not subsequently reassessed 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, 2019.

30. 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 2019 and 2018. This has been developed 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.

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, 2019:

	Amounts
Depreciation expenses	26,400,262
Interest expense (included in general and administrative expenses)	2,598,378
Expense relating to short-term leases (included in general and administrative expense)	7,846,549

The total cash outflow for leases as at December 31, 2019 is P29,442,985.

a) *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 rate applied to measure the lease liability as at January 1, 2019 is 5.90%. Incremental borrowing rates applied to measure the lease liability for newly entered contracts in 2019 range from 3.37% to 5.67%.

b) *Reconciliation of operating lease commitments and lease liability*

The reconciliation between the operating lease commitments disclosed in applying PAS 17 at December 31, 2018 discounted using the Company's incremental borrowing rate and the lease liability recognized as at January 1, 2019 is as follows:

	Amounts
Operating lease commitments, December 31, 2018	65,691,289
Less:	
Short-term leases recognized on a straight-line basis as expense	9,898,027
Discounting effect using weighted average incremental borrowing rate of (5.90%)	4,127,545
Lease liability, January 1, 2019	51,665,717

Prior to January 1, 2019, the Company has a lease contract covering the head office premises for a period of five (5) years up to December 2020. The Company also has several lease agreements covering the branch offices for periods ranging from 1 to 5 years until June 2022. These lease contracts are renewable upon mutual agreement of the Company and the lessors.

The carrying values of rental deposits and prepaid rent for the above lease agreements amounted to P6,775,648 and P8,349,014 as of December 31, 2018, respectively (Note 7).

Rental expense included in the "Rent" account in the “General and administrative" account amounted to P23,979,753 in 2018 (Note 22). These amounts include straight-line amortization as a result of the present value computation of noninterest-bearing rental deposits amounting to P354,867 in 2018.

The future aggregate annual minimum lease payments under these non-cancellable operating leases as at December 31, 2018 follow:

	Amounts
Within one year	26,685,326
After one year but not more than five years	39,005,963
	65,691,289

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

The Company reported and paid the following taxes in 2019:

(i) Premium tax

The Company is primarily engaged in the business of life insurance and paid the amount of P39,889,061 (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, 2019 the Company recognized taxable sales from management fee revenue and output tax in the amount of P240,743,627 and P28,889,235, respectively. Output VAT payable as at December 31, 2019 amounts to P2,085,091 which is presented in taxes payable under “Accounts payable, accrued expenses, and provisions” account.

Details of input VAT in 2019 follows:

	Amounts
Beginning balance	-
Add: Current year’s domestic purchases/payments for:	
Services	5,079,416
Goods other than capital goods	353,232
Capital goods subject to amortization	2,530,442
Input VAT applied against output VAT	-
Total input VAT	7,963,090

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)	73,750,381,298	2,113,640
DST on policy loans	27,682,200	207,617
	73,778,063,498	2,321,257

(v) 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	13,440,551
CTC	10,500
BIR annual registration	5,000
Others (IC Fees, Notarial Fees, PTR, etc.)	6,681,056
Total	20,137,107

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

(vi) Withholding taxes

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

	Paid	Accrued	Total
Tax on compensation and benefits	80,983,276	6,875,742	87,859,018
Creditable withholding taxes	58,786,039	4,889,133	63,675,172
Fringe benefit taxes	4,495,972	1,326,251	5,822,223
Withholding VAT	259,569	204,221	463,790
Final withholding taxes	462,117	-	462,117
Total	144,986,973	13,295,347	158,282,320

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

(vii) Tax assessment

Taxable years 2018, 2017, and 2016 are open tax years as at December 31, 2019. The Company has not received Preliminary and Final Assessment Notices on the open tax years.