Allianz PNB Life Insurance, Inc.

Financial Statements
As at and for the years ended December 31, 2022 and 2021

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Isla Lipana & Co.

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, 2022 and 2021, 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, 2022 and 2021;
- the statements of income for the years ended December 31, 2022 and 2021;
- the statements of comprehensive income for the years ended December 31, 2022 and 2021;
- the statements of changes in equity for the years ended December 31, 2022 and 2021;
- the statements of cash flows for the years ended December 31, 2022 and 2021; 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.

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.

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 9, 2023, Makati City
SEC A.N. (individual) as general auditors 90670-SEC, Category A; valid to audit 2019 to 2023
financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024
financial statements
TIN 152-015-124
BIR A.N. 08-000745-047-2021, issued on November 23, 2021; effective until November 22, 2024
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
March 27, 2023

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

Statements of Financial Position
As at December 31, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
ASSETS			
Cash and cash equivalents	2	1,250,191,448	1,461,012,291
Financial assets for unit-linked contracts	3	77,121,915,674	62,924,001,805
Financial assets at fair value through profit or loss	4	250,528,507	191,802,251
Available-for-sale financial assets	4	11,747,826,127	12,965,452,424
Insurance receivables	5	35,442,964	59,197,169
Loans and receivables	6	608,673,645	616,310,306
Prepayments and deposits	7	35,965,261	39,182,860
Property and equipment, net	8	185,376,332	220,027,177
Deferred tax assets, net	25	213,778,877	175,093,954
Other assets, net	9	473,483,464	425,085,848
TOTAL ASSETS		**91,923,182,299**	**79,077,166,085**
LIABILITIES			
Insurance contract liabilities	10	9,865,845,477	11,769,466,896
Due to reinsurer		52,672,159	25,725,084
Financial liabilities for unit-linked contracts	3	77,121,915,674	62,924,001,805
Premium deposit fund	12	176,378,281	239,724,748
Accounts payable, accrued expenses, and provisions	13	2,207,346,539	2,037,595,152
Pension liability, net	24	38,295,368	40,329,314
TOTAL LIABILITIES		**89,462,453,498**	**77,036,842,999**
EQUITY			
Capital stock	14	250,000,000	250,000,000
Additional paid-in capital		50,000,000	50,000,000
Contingency surplus	14	2,600,000,000	1,800,000,000
Reserve for fluctuation on available-for-sale financial assets	4	(1,199,185,470)	807,568,282
Remeasurement on aggregate reserves	10	309,143,725	(1,423,621,959)
Remeasurement on defined benefit plan	24	(12,619,864)	(30,137,500)
Retained earnings		463,390,410	586,514,263
TOTAL EQUITY		**2,460,728,801**	**2,040,323,086**
TOTAL LIABILITIES AND EQUITY		**91,923,182,299**	**79,077,166,085**

(The notes on pages 1 to 69 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, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
PREMIUMS			
GROSS PREMIUMS ON INSURANCE CONTRACTS		3,128,725,688	2,386,592,513
REINSURERS' SHARE OF GROSS PREMIUMS ON INSURANCE CONTRACTS		(129,584,348)	(49,361,865)
NET INSURANCE PREMIUMS	15	**2,999,141,340**	**2,337,230,648**
OTHER INCOME			
Investment income	16	680,254,382	681,303,928
Referral fee income	3,17	734,769,835	530,169,450
Net fair value loss on financial assets at fair value through profit or loss	4	(11,305,985)	(4,023,315)
Gain on sale of available-for-sale financial assets, net	4	3,781,720	193,068,270
Miscellaneous (loss) income	18	(2,504,537)	18,737,356
Total other income		**1,404,995,415**	**1,419,255,689**
TOTAL PREMIUMS AND OTHER INCOME		**4,404,136,755**	**3,756,486,337**
BENEFITS, CLAIMS AND EXPENSES			
Gross life insurance contract benefits and claims	19	1,740,139,020	1,291,091,165
Reinsurers' share of life insurance contract benefits and claims	19	(20,832,798)	(13,047,660)
Gross change in insurance contract reserves	10	(473,710,666)	(428,253,494)
Gross change in incurred but not reported claims	10,19	(7,323,308)	(31,511,478)
NET INSURANCE BENEFITS AND CLAIMS		**1,238,272,248**	**818,278,533**
INSURANCE EXPENSES			
Commissions and agency-related compensation	20	1,521,797,114	1,367,220,374
Salaries, wages and employee benefits	23	320,855,776	279,658,384
Taxes and licenses	21	40,999,448	30,695,313
Interest expense	9,12	2,306,735	4,293,307
Medical fees		6,753,696	4,428,937
Total insurance expenses		**1,892,712,769**	**1,686,296,315**
OTHER EXPENSES			
General and administrative expenses	22	1,260,075,568	1,028,854,999
Foreign exchange loss, net		69,690,530	20,952,311
Total other expenses		**1,329,766,098**	**1,049,807,310**
TOTAL INSURANCE BENEFITS, CLAIMS AND OTHER EXPENSES		**4,460,751,115**	**3,554,382,158**
(LOSS) INCOME BEFORE INCOME TAX		**(56,614,360)**	**202,104,179**
PROVISION FOR INCOME TAX	25	66,509,493	94,407,009
NET (LOSS) INCOME FOR THE YEAR		**(123,123,853)**	**107,697,170**

(The notes on pages 1 to 69 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, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
NET (LOSS) INCOME FOR THE YEAR		**(123,123,853)**	**107,697,170**
OTHER COMPREHENSIVE INCOME			
Item that will be reclassified subsequently to profit or loss			
Net unrealized loss on available-for-sale financial assets, net of tax	4	(2,006,753,752)	(1,268,250,695)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement gains on retirement plan, net of tax	24	17,517,636	17,023,505
Remeasurement gains on aggregate reserves, net of tax	10	1,732,765,684	937,374,574
Total other comprehensive loss for the year, net of tax		**(256,470,432)**	**(313,852,616)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(379,594,285)**	**(206,155,446)**

(The notes on pages 1 to 69 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, 2022 and 2021
(All amounts in Philippine Peso)

	Capital stock (Note 14)	Additional paid-In capital	Contingency Surplus (Note 14)	Reserve for fluctuation on available-for-sale financial assets (Note 4)	Remeasurement on insurance contract reserves (Note 10)	Remeasurement on defined benefit plan (Note 24)	Retained earnings	EQUITY
BALANCE AT JANUARY 1, 2021	**250,000,000**	**50,000,000**	**1,300,000,000**	**2,075,818,977**	**(2,360,996,533)**	**(47,161,005)**	**478,817,093**	**1,746,478,532**
TRANSACTION WITH OWNERS								
Additional capital contribution	-	-	500,000,000	-	-	-	-	500,000,000
COMPREHENSIVE (LOSS) INCOME								
Net income for the year	-	-	-	-	-	-	107,697,170	107,697,170
Other comprehensive (loss) income for the year	-	-	-	(1,268,250,695)	937,374,574	17,023,505	-	(313,852,616)
Total comprehensive (loss) income for the year	-	-	-	(1,268,250,695)	937,374,574	17,023,505	107,697,170	(206,155,446)
BALANCE AT DECEMBER 31, 2021	**250,000,000**	**50,000,000**	**1,800,000,000**	**807,568,282**	**(1,423,621,959)**	**(30,137,500)**	**586,514,263**	**2,040,323,086**
TRANSACTION WITH OWNERS								
Additional capital contribution	-	-	800,000,000	-	-	-	-	800,000,000
COMPREHENSIVE (LOSS) INCOME								
Net income for the year	-	-	-	-	-	-	(123,123,853)	(123,123,853)
Other comprehensive (loss) income for the year	-	-	-	(2,006,753,752)	1,732,765,684	17,517,636	-	(256,470,432)
Total comprehensive (loss) income for the year	-	-	-	(2,006,753,752)	1,732,765,684	17,517,636	(123,123,853)	(379,594,285)
BALANCE AT DECEMBER 31, 2022	**250,000,000**	**50,000,000**	**2,600,000,000**	**(1,199,185,470)**	**309,143,725**	**(12,619,864)**	**463,390,410**	**2,460,728,801**

(The notes on pages 1 to 69 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, 2022 and 2021
(All amounts in Philippine Peso)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) Income before income tax		(56,614,360)	202,104,179
Adjustments for:			
Decrease in insurance contract reserve, net of reinsurers' share	10	(473,710,666)	(428,253,494)
Depreciation and amortization	8,9,22	181,812,394	134,422,678
Unrealized foreign exchange loss (gain)	28	5,892,624	(35,540,596)
Net increase in restricted stock units	23	6,741,888	8,835,507
Gain on sale of available-for-sale financial assets	4	(3,781,720)	(193,068,270)
Net fair value loss on financial assets at fair value through profit or loss	4	11,305,985	4,023,315
Retirement benefits	23,24	21,883,809	25,039,813
Loss (gain) on disposal of fixed assets	18	601,241	(914,941)
Interest expense	9,12,22	6,467,439	9,242,720
Amortization of bond discount, net	4	29,158,101	11,761,471
Reversal of net incurred but not reported losses	10,19	(7,323,308)	(31,511,478)
Interest income	16	(706,669,531)	(671,973,147)
Dividend income	16	(2,742,952)	(9,330,781)
Operating income before changes in operating assets and liabilities		(986,979,056)	(975,163,024)
Changes in operating assets and liabilities			
Decrease (increase) in:			
Insurance receivables		23,975,071	14,083,894
Loans and receivables		7,138,369	141,842,049
Prepayments and deposits		3,217,599	(5,556,529)
Other assets		(3,789,530)	3,678,136
Increase (decrease) in:			
Accounts payable and accrued expenses		185,790,661	237,376,972
Insurance contract liabilities		481,664,517	372,209,430
Premium deposit fund		(65,852,347)	(112,804,552)
Due to reinsurer		26,947,075	6,529,908
Cash used in operations		(327,887,641)	(317,803,716)
Interest income received		706,669,531	668,518,073
Dividends received		3,850,177	11,173,099
Income tax paid		(111,933,628)	(111,932,621)
Retirement contributions	24	(560,907)	(12,081,864)
Interest paid on leases	29	(4,160,704)	(4,949,413)
Net cash generated from operating activities		**265,976,828**	**232,923,558**

(forward)

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

Statements of Cash Flows
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

(forwarded)

	Notes	2022	2021
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from:			
Sale or maturities of available-for-sale financial assets	4	1,692,033,084	1,326,543,160
Sale of property and equipment	8	605,163	1,728,788
Purchases of:			
Available-for-sale financial assets	4	(2,691,894,378)	(1,850,186,137)
Property and equipment	8	(37,664,181)	(38,797,761)
Software, net	9	(138,454,589)	(184,671,165)
(Increase) decrease in financial assets at fair value through profit or loss	4	(68,482,167)	608,317,407
Net cash used in investing activities		**(1,243,857,068)**	**(137,065,708)**
CASH FLOWS USED IN FINANCING ACTIVITY			
Additional capital contribution	14	800,000,000	500,000,000
Payments of principal on leases	13	(39,439,286)	(39,835,461)
Net cash from financing activities		**760,560,714**	**460,164,539**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(217,319,526)**	**556,022,389**
CASH	2		
At January 1		1,461,012,291	898,566,273
Effect of exchange rate changes on cash		6,498,683	6,423,629
December 31		**1,250,191,448**	**1,461,012,291**

(The notes on pages 1 to 69 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, 2022 and 2021
(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). Allianz SE is a holding and reinsurance company of the Allianz Group, domiciled and incorporated in Munich, Germany while PNB is a universal bank incorporated and domiciled in the Philippines. 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 297 employees as at December 31, 2022 (2021 - 276 employees).

Authorization of the financial statements

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on March 10, 2023. There are no material events that occurred from March 10 to March 27, 2023.

2. Cash and cash equivalents

The account at December 31 consists of:

	2022	2021
Petty cash fund	260,256	314,669
Cash in banks		
Peso-denominated	788,564,796	440,309,147
Dollar-denominated	461,366,396	1,020,388,475
	1,250,191,448	1,461,012,291

Cash in banks earns interest at the prevailing bank deposit rates. Interest income from cash in banks for the year ended December 31, 2022 amounted to P174,226 (2021 - P198,530) (Note 16).

Cash equivalents are made for varying periods not exceeding three months depending on the immediate cash requirements of the Company. Certain cash equivalents with interest at the prevailing cash equivalents deposit rates that ranged from 3.25% to 10.45% in 2022 (2021 - 0.50% to 1.13%) were purchased and have matured in 2022 and 2021. Interest income from cash equivalents for the year ended December 31, 2022 amounted to P8,216,159 (2021 - P1,920,867) (Note 16).

Cash in banks and cash equivalents is classified as current as at December 31, 2022 and 2021.

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, 2022						
Dollar Income and Growth Dividend Paying Fund	403,279,568	36,583,941,046	21,134,561	(6,444,747)	(925,757)	37,000,984,671
Peso-Hedged Global Real Assets Dividend Paying Fund	788,099,931	11,455,906,688	197,879,104	(89,536,504)	(734,964)	12,351,614,255
Peso-Hedged Asian Multi Income Plus Dividend Paying Fund	432,736,716	7,447,479,054	-	(72,975,008)	(792,145)	7,806,448,617
Peso Multi-Sector Equity Fund	115,196,229	2,173,390,563	25,480,025	(12,029,177)	(820,435)	2,301,217,205
Dollar Global Income Dividend Paying Fund	24,448,904	2,014,942,807	1,415,661	(871,482)	(993,888)	2,038,942,002
Dollar Global Equity Plus Fund	43,579,502	1,993,493,229	278,570	(2,514,946)	(820,032)	2,034,016,323
Peso-Hedged Global Sustainability Fund	109,055,321	1,901,237,859	2,531,835	(15,936,292)	(1,199,636)	1,995,689,087
Dollar Global Real Assets Dividend Paying Fund	80,343,926	1,826,344,117	6,294,897	(968,337)	(810,304)	1,911,204,299
Peso Philippine Equity Fund	49,454,445	1,864,027,946	2,659,890	(2,788,888)	(2,678,729)	1,910,674,664
Dollar Flexi Asia Dividend Paying Bond Fund	8,463,750	1,435,970,782	-	(1,155,860)	(618,872)	1,442,659,800
Peso Optimized Dividend Equity Fund	61,769,931	1,282,257,462	2,995,392	(5,380,936)	(1,017,371)	1,340,624,478
Peso Balanced Growth Fund	44,164,557	1,076,867,927	5,485,011	(1,139,349)	(2,687,185)	1,122,690,961
Dollar Income and Growth Fund	3,010,818	653,660,466	45,881	(704,115)	(1,467,743)	654,545,307
Peso Fixed Income Fund	27,280,304	580,211,846	7,078,944	(1,558,189)	(2,475,398)	610,537,507
Peso Dynasty Equity Fund	28,807,924	517,497,402	52,756	(419,444)	(7,158,670)	538,779,968
Dollar Bond Fund	17,736,805	447,580,391	9,230,029	(1,790,185)	(2,332,055)	470,424,985
Global Treasures Peso Fund	170,448	445,851,363	-	(802,015)	(99,137,591)	346,082,205
Peso-Hedged Systematic Global Equity Dividend-Paying Fund	10,796,502	245,222,557	-	(1,966,416)	(998,328)	253,054,315
Fixed Index Unit-Linked Fund	10,253,029	311,563,999	7,089,093	(1,536,887)	(83,074,228)	244,295,006
Dollar Flexi Asia Bond Fund	4,607,495	206,093,195	27,149	(96,449)	(830,029)	209,801,361
Dollar Global Opportunistic Dividend Paying Bond Fund	2,920,119	193,455,730	-	(106,581)	(953,471)	195,315,797
Dollar Systematic Global Equity Dividend-Paying Fund	10,266,564	165,413,444	2,215,093	(115,585)	(1,155,924)	176,623,592
Peso-Hedged Diversified Income Dividend Paying Fund	9,764,044	129,265,641	-	(1,120,883)	(796,061)	137,112,741
Peso Money Market Fund	14,490,282	1,058,315	10,500	(4,122)	(1,134,309)	14,420,666
Peso-Hedged Income and Growth Dividend Paying Fund	866,203	14,330,376	37,354	(114,976)	(963,095)	14,155,862
	2,301,563,317	74,967,064,205	291,941,745	(222,077,373)	(216,576,220)	77,121,915,674

	Cash and cash equivalents	Investment securities carried at FVTPL	Accounts receivable	Accrued management fee	Seed capital (Note 4)	**Net assets**
At December 31, 2021						
Dollar Income and Growth Dividend Paying Fund	738,586,403	31,854,865,917	68,115,745	(4,982,474)	(1,137,268)	32,655,448,323
Peso-Hedged Asian Multi Income Plus Dividend Paying Fund	663,885,448	9,834,708,638	13,215,706	(624,987,484)	(1,001,502)	9,885,820,806
Peso Multi-Sector Equity Fund	108,188,494	2,451,877,626	31,550,130	(31,998,748)	(924,712)	2,558,692,790
Dollar Flexi Asia Dividend Paying Bond Fund	17,910,395	2,454,904,132	-	(584,804)	(762,368)	2,471,467,355
Peso Philippine Equity Fund	46,082,349	1,955,748,210	3,900,001	(9,464,495)	(2,841,066)	1,993,424,999
Dollar Global Income Dividend Paying Fund	42,465,737	1,931,927,195	-	(533,304)	(1,085,338)	1,972,774,290
Peso-Hedged Global Sustainability Fund	120,811,590	1,795,858,880	64,949,412	(112,765,012)	(1,525,649)	1,867,329,221
Dollar Global Equity Fund	5,390,730	1,637,688,736	51,221	(5,152,505)	(1,865,674)	1,636,112,508
Peso Optimized Dividend Equity Fund	61,394,358	1,489,631,745	40,449	(565,222)	(1,003,107)	1,549,498,223
Peso Balanced Growth Fund	13,934,373	1,264,057,813	7,371,673	(1,170,293)	(2,809,886)	1,281,383,680
Dollar Global Equity Plus Fund	48,928,573	1,131,490,259	432,467	(433,623)	(1,040,210)	1,179,377,466
Dollar Income and Growth Fund	33,431,387	736,213,015	2,008,133	(473,797)	(1,659,001)	769,519,737
Peso Fixed Income Fund	313,365	714,188,451	8,033,988	(1,538,108)	(2,582,930)	718,414,766
Dollar Bond Fund	22,685,481	528,133,814	9,431,884	(1,601,009)	(2,386,113)	556,264,057
Peso Dynasty Equity Fund	19,280,284	512,599,343	74,389	(211,575)	(7,543,240)	524,199,201
Global Treasures Peso Fund	2,874	455,154,206	-	(1,836,654)	(70,704,679)	382,615,747
Fixed Index Unit-Linked Fund	9,426,739	321,016,653	6,937,709	(1,517,290)	(60,147,761)	275,716,050
Dollar Flexi Asia Bond Fund	3,023,764	264,674,302	-	(97,959)	(972,930)	266,627,177
Dollar Global Opportunistic Dividend Paying Bond Fund	9,008,188	187,488,579	-	(54,074)	(960,490)	195,482,203
Peso-Hedged Diversified Income Dividend Paying Fund	5,885,824	156,986,664	-	(3,998,375)	(983,485)	157,890,628
Peso Money Market Fund	27,304,958	1,045,772	26,591	(1,309,836)	(1,124,907)	25,942,578
	1,997,941,314	**61,680,259,950**	216,139,498	(805,276,641)	(165,062,316)	62,924,001,805

In 2022, the Company launched five additional open-ended funds. These are Peso-Hedged Global Real Assets Dividend-Paying Fund and Dollar Global Real Assets Dividend-Paying Fund, which were launched on January 4, 2022, Dollar Systematic Global Equity Dividend-Paying and Peso-Hedged Systematic Global Equity Dividend-Paying Fund, which were launched on September 1, 2022, and Peso-Hedged Income and Growth Dividend-Paying Fund, which were launched on October 28, 2022.

In 2021, the Company launched two additional open-ended funds. These are Dollar Global Opportunistic Dividend Paying Bond Fund, which was launched on February 17, 2021, and Dollar Global Equity Plus Fund, which was launched on July 19, 2021.

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. In 2022, total premium income included in the statements of income arising from the unit-linked products amounted to P2,152,889,608 (2021 - P1,423,227,300) (Note 15). For the year ended December 31, 2022, referral fee income from variable unit-linked (VUL) policies amount to P734,769,835 (2021 - P530,169,450) (Note 17).

The total net assets are presented as financial assets for unit-linked contracts in the statements of financial position. A corresponding financial liability for unit-linked contracts is also recognized in the statements of financial position which represents the total insurance contract liability amount payable to unit-linked policyholders. Financial assets for unit-linked contracts have the same terms with its corresponding financial liability for unit-linked contracts (Note 28). The financial assets for unit-linked contracts are expected to be recovered following the maturity of the corresponding financial liability for unit-linked contracts.

(a) Cash and cash equivalents

	2022	2021
Cash in banks		
Peso-denominated	1,351,564,692	791,405,534
Dollar-denominated	581,793,562	898,787,102
Cash equivalents		
Peso-denominated	350,474,973	285,105,122
Dollar-denominated	17,730,090	22,643,556
	2,301,563,317	1,997,941,314

(b) Investment securities carried at FVTPL

	2022	2021
Quoted equity securities		
Peso-denominated	27,588,220,204	18,958,170,464
Dollar-denominated	45,073,314,816	40,199,252,134
Equity-linked notes		
Peso-denominated	445,851,363	455,154,206
Government debt securities		
Peso-denominated	831,885,584	1,536,025,188
Dollar-denominated	318,457,006	396,414,283
Private debt securities		
Peso-denominated	580,211,846	3,524,144
Dollar-denominated	129,123,386	131,719,531
	74,967,064,205	61,680,259,950

(c) Accounts receivable

	2022	2021
Accrued income	31,609,957	31,532,858
Other receivables	260,331,788	184,606,640
	291,941,745	216,139,498

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, 2022, the Company owns 184,548,340 (2021 - 133,371,992) outstanding number of units with net asset value of P216,576,220 (2021 - P165,062,316).

4. Financial assets at fair value through profit or loss ("FVTPL"); Available-for-sale ("AFS") financial assets

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

	2022	2021
Financial assets at FVTPL	250,528,507	191,802,251
AFS financial assets	11,747,826,127	12,965,452,424
	11,998,354,634	13,157,254,675

(a) Financial assets at FVTPL

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

	Notes	2022	2021
Quoted equity securities		7,680,000	8,115,200
Investment in unit-linked funds	3		
Peso-denominated		106,530,553	153,192,924
Dollar-denominated		110,045,667	11,869,392
Derivative asset	23	26,272,287	18,624,735
		250,528,507	191,802,251

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

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

	Note	2022	2021
Fair value (loss) gain on:			
Quoted equity securities		(435,200)	199,680
Investment in unit-linked funds		(12,065,348)	454,695
Derivative asset	23	2,015,165	3,319,150
Realized loss on sale of financial assets at FVTPL		(820,602)	(7,996,840)
		(11,305,985)	(4,023,315)

Dividend income from quoted equity securities for the year ended December 31, 2022 amounted to P2,742,952 (2021 - P9,330,781) (Note 16).

(b) AFS financial assets

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

	2022	2021
Government debt securities		
Peso-denominated	8,427,260,971	8,484,805,903
Dollar-denominated	1,221,850,352	1,419,045,250
Private debt securities		
Peso-denominated	1,472,444,610	2,407,713,748
Dollar-denominated	548,270,194	581,887,523
Proprietary shares	78,000,000	72,000,000
	11,747,826,127	12,965,452,424

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

	2022	2021
At January 1	12,965,452,424	13,388,789,611
Additions	2,691,894,378	1,850,186,137
Disposals	(1,684,469,644)	(940,406,620)
Amortization of bond discount, net	(29,158,101)	(11,761,471)
Fair value change recycled to profit or loss	(3,781,720)	(193,068,270)
Fair value change in other comprehensive loss	(2,005,853,752)	(1,266,450,695)
Unrealized foreign exchange (loss) gain	(186,257,458)	138,163,732
At December 31	11,747,826,127	12,965,452,424

Proceeds from the disposal of AFS financial assets for the year ended December 31, 2022 amount to P1,692,033,084 (2021 - P1,326,543,160). Gain on sale of AFS securities for the year ended December 31, 2022 amounted to P3,781,720 (2021 - P193,068,270).

Interest income from AFS debt securities amounted to P634,498,183 and P639,099,328 in 2022 and 2021, respectively (Note 16).

The fair value change charged to other comprehensive income are considered as a non-cash movement in the statement of cash flows.

Under Section 209 of the Amended Insurance Code (Republic Act No. 10607), to the extent of 25% of the insurance company's minimum net worth requirement, the insurance company should invest in bonds and other debt securities approved by the IC as security for the benefit of the Company's policyholders and creditors.

As at December 31, 2022, government debt securities valued at P336,161,920 (2021 - P283,676,655), are deposited with the Bureau of the Treasury and earmarked as non-tradable in accordance with the provisions of the Amended Insurance Code. In December 2022, 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 2022. These bonds were acquired on June 30, 2022 and will mature on June 23, 2032.

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

	2022	2021
At January 1	807,568,282	2,075,818,977
Unrealized fair value	(2,009,635,472)	(1,459,518,965)
Tax effect	(900,000)	(1,800,000)
Fair value gains realized through profit or loss	3,781,720	193,068,270
At December 31	(1,199,185,470)	807,568,282

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

	2022	2021
Government debt securities		
Peso-denominated	0.00% - 18.25%	3.50% - 18.25%
Dollar-denominated	2.65% - 9.50%	2.65% - 9.50%
Private debt securities		
Peso-denominated	0.00% - 6.88%	0.00% - 6.88%
Dollar-denominated	3.00% - 8.60%	3.00% - 8.60%

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

	2022		2021	
	Within 12 months	Beyond 12 months	Within 12 months	Beyond 12 months
Financial assets at FVTPL				
Derivative assets	-	26,272,287	-	18,624,735
AFS financial assets				
Government debt securities	10,049,500	9,639,061,823	10,268,300	9,893,582,853
Private debt securities	135,536,559	1,885,178,245	136,218,030	2,853,383,241
	145,586,059	11,550,512,355	146,486,330	12,765,590,829

Investments in unit-linked funds (except those that are invested in structured products) classified under financial assets at FVTPL and equity instruments such as quoted equity securities (financial assets at FVTPL) and proprietary shares (AFS financial assets) have no contractual maturity, and therefore, these are generally considered to be non-current. As at December 31, 2022, investments in unit-linked funds classified under financial assets at FVTPL that pertains to seed capital on structured products (Note 28) will mature in 2023.

5. Insurance receivables

The account at December 31 consists of:

	2022	2021
Premiums due and uncollected	24,766,935	46,149,509
Reinsurance recoverable on paid losses	10,676,029	13,047,660
	35,442,964	59,197,169

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	2022	2021
Policy loans		332,934,129	310,545,670
Accrued income		162,063,417	173,788,305
Advances to employees and agents		53,773,652	53,378,098
Due from unit-linked funds		52,587,257	56,526,409
Receivable from related parties	26	-	16,025,971
Other receivables		7,315,190	6,045,853
		608,673,645	616,310,306

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 for the year ended December 31, 2022 and 2021 are 10% and 8%. Interest income from policy loans for the year ended December 31, 2022 amounted to P34,662,862 (2021 - P30,754,422) (Note 16).

Accrued income as at December 31 consists mainly of accrued interest income on investments and policy loans.

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

Receivable from related parties represent payments of employee benefits and travel and accommodation expenses which are reimbursable to related parties under common control (Note 26).

Other receivables consist of advances to policyholders.

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

7. Prepayments and deposits

The account at December 31 consists of:

	Note	2022	2021
Rental and other deposits	29	18,870,907	19,280,107
Prepayments to suppliers and service providers		15,092,693	19,454,290
Prepaid rent	29	2,001,661	448,463
		35,965,261	39,182,860

Included under “Rental and other deposit” is the bond requirement deposited for the appeal filed in the appellate court as of December 31, 2022 amounting to P7,169,566 (2021 - P7,169,566) (Note 29).

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

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

The Company’s prepayments and deposits, excluding rental and other deposits, which are considered as non-current, are expected to be realized 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:

2022	Note	Computer and office equipment	Leasehold improvements	Office premises	Furniture and fixtures	Transportation Equipment	Construction in progress	Total
Cost								
January 1		148,360,251	162,660,071	187,037,932	20,106,825	39,844,843	960,090	558,970,012
Additions		31,750,198	-	16,658,124	50,846	5,574,069	289,068	54,322,305
Disposals		(300,107)	-	-	-	(6,851,022)	-	(7,151,129)
Transfers		-	1,249,158	-	-	-	(1,249,158)	-
		179,810,342	163,909,229	203,696,056	20,157,671	38,567,890	-	606,141,188
Accumulated depreciation and amortization								
January 1		124,341,213	114,035,703	58,221,149	18,517,338	23,827,432	-	338,942,835
Depreciation	22	17,855,430	21,723,615	41,432,858	993,884	5,760,959	-	87,766,746
Disposals		(181,860)	-	-	-	(5,762,865)	-	(5,944,725)
		142,014,783	135,759,318	99,654,007	19,511,222	23,825,526	-	420,764,856
Net book value		37,795,559	28,149,911	104,042,049	646,449	14,742,364	-	185,376,332

2021	Note	Computer and office equipment	Leasehold improvements	Office premises	Furniture and fixtures	Transportation Equipment	Construction in progress	Total
Cost								
January 1		131,268,417	144,900,599	43,540,641	20,022,911	40,405,025	7,599,356	387,736,949
Additions		16,754,750	2,774,060	143,497,291	83,914	10,838,891	8,346,146	182,295,052
Disposals		(758,940)	-	-	-	(11,399,073)	-	(12,158,013)
Transfers		1,096,024	14,985,412	-	-	-	(14,985,412)	1,096,024
		148,360,251	162,660,071	187,037,932	20,106,825	39,844,843	960,090	558,970,012
Accumulated depreciation and amortization								
January 1		106,711,155	86,139,313	20,133,420	14,672,444	28,082,389	-	255,738,721
Depreciation	22	18,375,874	27,836,109	38,087,729	3,844,894	6,343,393	-	94,487,999
Reclassification		-	60,281	-	-	-	-	60,281
Disposals		(745,816)	-	-	-	(10,598,350)	-	(11,344,166)
		124,341,213	114,035,703	58,221,149	18,517,338	23,827,432	-	338,942,835
Net book value		24,019,038	48,624,368	128,816,783	1,589,487	16,017,411	960,090	220,027,177

Additions to office premises in 2022 and 2021 pertains to lease agreements covering branch offices entered by the Company. The inception of new lease agreements resulted recognition of additions to office premises and lease liabilities amounting to P16,658,124 (2021 - P143,497,291). No corresponding cash outflow was made as a result of this transaction.

In 2022, the Company sold certain computer and office equipment and transportation equipment with a total proceeds of P605,163 (2021 - P1,728,788) which resulted to a loss on disposal of fixed assets amounting to P601,241 (2021 - gain of P914,941) and is presented under “Miscellaneous (loss) income” (Note 18).

Transfers from construction in progress in 2022 pertain to completion of leasehold improvements under construction in the Company’s office space.

9. Other assets, net

The account at December 31 consists of:

	2022	2021
Software and intangible assets under development, net	398,018,875	358,070,698
Agents’ provident fund	44,914,868	44,693,555
Creditable withholding tax	15,598,574	13,382,869
Deferred input VAT	10,726,213	4,540,697
Office supplies	3,636,713	3,769,049
Documentary stamp tax fund	466,760	507,519
Security fund	121,461	121,461
	473,483,464	425,085,848

The roll forward analysis of Software and intangible assets under development, net for the years ended December 31 follows:

	Note	Software	Intangible assets under development	Total
2022				
Cost				
January 1		313,769,854	181,323,775	495,093,629
Additions		17,624,238	120,830,396	138,454,589
Reclassification/transfers		171,625,801	(171,625,801)	-
Retirement		-	(4,460,764)	(4,460,764)
		503,019,893	126,067,606	629,087,454
Accumulated amortization				
January 1		137,022,931	-	137,022,931
Amortization	22	94,045,648	-	94,045,648
		231,068,579	-	231,068,579
Net book value		271,951,314	126,067,606	398,018,875

	Note	Software	Intangible assets under development	Total
2021				
Cost				
January 1		179,530,620	131,987,868	311,518,488
Additions		3,530,806	181,140,359	184,671,165
Reclassification/transfers		130,708,428	(131,804,452)	(1,096,024)
		313,769,854	181,323,775	495,093,629
Accumulated amortization				
January 1		97,088,252	-	97,088,252
Amortization	22	39,934,679	-	39,934,679
		137,022,931	-	137,022,931
Net book value		176,746,923	181,323,775	358,070,698

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. These projects are expected to be completed by the third quarter of 2022.

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

Agents' provident fund pertains to the assets held by the Company in a fiduciary capacity on behalf of its agents. The Company retains 5% of the agents' commissions and bonuses with a limit of P80,000 a year. The Company contributes to the fund an amount equivalent of what is retained from the agent. The related liability with respect to the fund is presented under "Accounts payable, accrued expenses, and provisions" (Note 13). In 2022, interest income relating to the fund amounts to P199,145 (2021 interest expense of P423,867).

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, agents' provident fund and security fund, which are considered as non-current, are expected to be realized within 12 months after the reporting date.

10. Insurance contract liabilities

The account at December 31 consists of:

	2022	2021
Aggregate reserves for life policies	8,827,898,420	10,862,888,492
Payable to policyholders	432,930,147	348,709,482
Policyholders' dividends due and unpaid	352,303,426	330,758,194
Policy and contract claim payable	206,561,441	173,635,377
Provision for incurred but not reported (IBNR) claims	46,152,043	53,475,351
	9,865,845,477	11,769,466,896

(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:

	2022	2021
With fixed and guaranteed terms		
Fixed and guaranteed - nonparticipating	1,546,732,310	2,121,081,412
Partially fixed and guaranteed participating	6,932,688,647	8,475,394,422
Unit-linked (unearned cost of insurance)	348,477,463	266,412,658
Total aggregate reserves for life policies	8,827,898,420	10,862,888,492

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

	2022		2021	
	Gross insurance	Net of reinsurance	Gross insurance	Net of reinsurance
Aggregate reserves for:				
Ordinary life policies	8,433,622,356	8,433,622,356	10,567,454,753	10,567,454,753
Group life policies	45,798,601	45,798,601	29,021,081	29,021,081
Unit-linked policies	348,477,463	348,477,463	266,412,658	266,412,658
Total aggregate reserves for life policies	8,827,898,420	8,827,898,420	10,862,888,492	10,862,888,492

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

	2022			2021		
	Gross insurance	Reinsurers' Share	Net	Gross insurance	Reinsurers' share	Net
At January 1	10,862,888,492	-	10,862,888,492	12,083,059,113	-	12,083,059,113
Premiums received	1,693,125,986	129,584,347	1,563,541,639	1,290,834,470	49,361,865	1,241,472,605
Liability released for payments of death, maturities and surrender benefits and claims	(4,089,819,440)	(129,584,347)	(3,960,235,093)	(2,818,492,502)	(49,361,865)	(2,769,130,637)
Exchange rate effect	171,486,278	-	171,486,278	145,457,448	-	145,457,448
Accretion of investment income	190,217,104	-	190,217,104	162,029,963	-	162,029,963
At December 31	8,827,898,420	-	8,827,898,420	10,862,888,492	-	10,862,888,492

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

	2022	2021
Ordinary life	(2,133,832,395)	(1,254,641,275)
Group life insurance	16,777,519	(84,924,094)
Unit-linked	82,064,804	119,394,749
Interest rate change	1,732,765,684	937,374,574
Foreign exchange revaluation	(171,486,278)	(145,457,448)
At December 31	(473,710,666)	(428,253,494)

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

	2022	2021
At January 1	(1,423,621,959)	(2,360,996,533)
Effect of remeasurement gains on aggregate reserves, net	1,732,765,684	937,374,574
	309,143,725	(1,423,621,959)

The aggregate reserves are expected to be settled following the maturity profile of the insurance contract liabilities based on the estimated timing of net cash outflows (Note 28).

(b) Payable to policyholders

Payable to policyholders pertain to endowment payments which are due at anniversary dates, as well as maturities and surrenders payable.

The payables to policyholders are expected to be settled following the maturity profile of the insurance contract liabilities based on the estimated timing of net cash flows (Note 28).

(c) Policyholders' dividends due and unpaid

Policyholder dividends pertain to actual dividends that have already been paid by the Company but not yet withdrawn by the policyholder. Unpaid dividends earn interest ranging from 1.00% to 2.50% in 2022 and 2021, which depends on the dividend accumulation rate declared by the Company and can be withdrawn in full at the policyholders' discretion. Accretion of interest on dividends due and unpaid amounts to P323,429,066 (2021 - P308,971,631) was recognized in Policyholder's dividends due and unpaid of insurance contract liabilities.

The policyholders' dividends due and unpaid are expected to be settled following the maturity profile of the insurance contract liabilities based on the estimated timing of net cash outflows (Note 28).

(d) 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	2022	2021
At January 1		227,110,728	216,977,389
Arising during the year	19	287,849,104	238,237,704
(Reversal of) provision for IBNR	19	(7,323,308)	(31,511,478)
Paid during the year	19	(254,923,040)	(196,592,887)
At December 31		252,713,484	227,110,728

The policy and contract claims payable and provision for IBNR are expected to be settled following the maturity profile of the insurance contract liabilities based on the estimated timing of net cash outflows (Note 28).

11. Insurance contract liabilities - terms and assumptions

11.1 Life insurance contract liabilities

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

11.2 Valuation methodology

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

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

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

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

11.3 Key assumptions

Assumptions used for product pricing are different from the assumptions used in calculating aggregate reserves for life policies. Assumptions used for aggregate reserve are based on past experience, current internal data and conditions and external market indices and benchmarking, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate and prudent estimates at the date of valuation, and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations and the corresponding changes thereon are adjusted against insurance contract liabilities prospectively. 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.

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 Margin for Adverse Deviation (MfAD)

In line with the requirements of IC CL 2016-66 and 69, the Company has also applied +/- 10% MfAD on the best estimates of the key assumptions mentioned above.

11.5 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 rates used for reporting changes in key assumptions internally to Management is 10% for mortality, expense, lapse and/or persistency and morbidity and 100 bps for interest rate and these represent Management's assessment of the reasonably possible change in key assumptions.

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	2022	2021
Mortality	+10%	(123,251,287)	(35,778,386)
	-10%	124,484,000	36,616,779
Interest rate	+100 bps	794,542,943	1,172,312,563
	-100 bps	(1,003,876,224)	(1,266,793,620)
Expense	+10%	(53,347,457)	(62,314,517)
	-10%	53,285,247	62,281,606
Lapse and/or persistency	+10%	(88,591,982)	(68,017,924)
	-10%	92,687,325	65,235,256
Morbidity	+10%	(5,854,069)	(3,137,983)

MfAD requirements under the IC are incorporated as part of the above key assumptions estimates.

11.6 Non-guaranteed benefits

The Company provides non-guaranteed benefits to its policyholders such as policyholder dividends which shall be determined with due regard to the Company's duty to treat its policyholders fairly and meet policyholders' reasonable expectations.

In 2021, the Company conducted a dividend review using its par portfolio data as of December 31, 2020 which has resulted to revised dividend scales that were approved by the Company's management effective April 1, 2021. The dividend review was done on a per product basis and resulted in a release of reserves amounting to P162.23 million for the year ended December 31, 2021.

11.7 Reinsurance - assumptions and methods

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

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

12. Premium deposit fund

This account pertains to excess payments received by the Company from the policyholders against contractual premium due. The excess payment could be applied to any future unpaid premiums. The accumulated fund shall not exceed the total future premium payments under the policy. As at December 31, 2022 premium deposit fund amounted to P176,378,281 (2021 - P239,724,748).

The fund bears interest at rates ranging from 1.50% to 2.50% in 2022 and 2021. Interest expense of the Company charged against statement of income for the year ended December 31, 2022 amounted to P2,505,880 (2021 - P3,869,440).

The premium deposit fund is expected to be recovered following the maturity profile based on remaining contractual obligations (Note 28).

13. Accounts payable, accrued expenses, and provisions

The account at December 31 consists of:

	Notes	2022	2021
Accrued expenses	20, 22, 23	867,035,605	810,960,686
Accounts payable		753,055,097	413,494,800
Premium holding account		304,582,763	444,910,178
Lease liability		104,134,817	126,915,979
Due to unit-linked fund		33,509,152	71,356,894
Taxes payable		21,379,660	29,308,867
Others		123,649,445	140,647,748
		2,207,346,539	2,037,595,152

Accrued expenses represent accruals for employee salaries and benefits and agents' commissions which are due to be settled within one year and the estimated amount vested for agents' provident fund.

Premium holding account pertains to advance payment from unissued policies.

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

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

The movement in the lease liability at December 31, 2022 is as follows:

	Notes	2022	2021
As at January 1	28	126,915,979	23,254,149
Principal and interest payments	29	(43,599,990)	(44,784,874)
Non-cash changes			
Additions during the year	8	16,658,124	143,497,291
Interest expense	22,29	4,160,704	4,949,413
As at December 31		104,134,817	126,915,979

Additions to lease liability is accounted for as a non-cash movement in the statement of cash flows.

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.

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

The accounts payable, accrued expenses and provisions are expected to be settled using the undiscounted contractual maturities disclosed in Note 28. Taxes payable are expected to be settled within 1 year.

14. Capital stock; Contingency surplus

(a) Capital stock

The account at December 31, 2022 and 2021 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

In 2022, the Company received additional capital contribution from its shareholders amounting to P800,000,000 (2021 - P500,000,000) to further support and strengthen the Company's net worth and RBC2 ratio requirements as prescribed by the IC. As at December 31, 2022, the Company's contingency surplus amounts to P2,600,000,000 (2021 - P1,800,000,000).

15. Net insurance premiums

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

	Note	2022	2021
Gross premiums			
Ordinary life insurance		783,133,263	845,021,207
Group life insurance		192,702,817	118,344,006
Unit-linked	3	34,741,045,116	30,471,220,678
Total gross premiums on insurance contracts		35,716,881,196	31,434,585,891
Premiums allocated to unit-linked insurance investment funds	3	(32,588,155,508)	(29,047,993,378)
		3,128,725,688	2,386,592,513

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

	2022	2021
Reinsurers' share of gross premiums on insurance contracts		
Ordinary life insurance	129,001,266	48,636,944
Group life insurance	583,082	724,921
	129,584,348	49,361,865

16. Investment income

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

	Notes	2022	2021
Interest income on:			
AFS financial assets	4	634,498,183	639,099,328
Policy loans	6	34,622,862	30,754,422
Cash equivalents	2	8,216,159	1,920,867
Cash in banks	2	174,226	198,530
Dividend income	4	2,742,952	9,330,781
		680,254,382	681,303,928

17. Referral fee income

Referral fee income pertain to the Company's share in fund administrative charges earned from policyholders of unit-linked insurance policies for management of unit-linked funds. The Company used rates ranging from 0.00% to 1.90% in 2022 (2021 - 0.00% to 1.75%).

18. Miscellaneous (loss) income

Miscellaneous income for the years ended December 31 consists of:

	2022	2021
Reinstatement charges	912,374	1,056,308
Gain (loss) on disposal of fixed assets	(601,241)	914,941
Marketing management	(2,889,208)	10,877,870
Others	73,538	5,888,237
	(2,504,537)	18,737,356

Reinstatement charges pertain to fees received by the Company to renew lapsed or terminated insurance policies.

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

Others consist of interest from advances to employees and agents and reversal of long outstanding suspense accounts.

19. Claims and policyholder benefits

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

	2022	2021
Gross life insurance contract benefits and claims:		
Ordinary life insurance	1,439,727,495	1,120,245,039
Group life insurance	142,795,049	105,915,191
Unit-linked	157,616,476	64,930,935
	1,740,139,020	1,291,091,165
Reinsurers' share of gross life insurance contract benefits and claims on group life insurance	(20,832,798)	(13,047,660)
	1,719,306,222	1,278,043,505

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

	Note	2022	2021
Policyholder benefits		1,407,891,695	1,019,328,577
Claims and other benefits	10	287,849,104	238,237,704
Dividends to policyholders		23,565,423	20,477,224
		1,719,306,222	1,278,043,505

For the year ended December 31, 2022, reversal in the provision for IBNR amounts to P7,323,308 (2021 - 31,511,478) (Note 10).

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

	Note	2022	2021
Policyholder benefits		1,323,784,359	705,800,996
Claims and other benefits	10	254,923,040	196,592,887
Dividends to policyholders		2,020,190	3,606,389
		1,580,727,589	906,000,272

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:

	2022	2021
Commissions and bonuses	889,987,954	863,671,445
Service fee	631,809,160	503,548,929
	1,521,797,114	1,367,220,374

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:

	2022	2021
Premium tax	36,429,571	26,544,464
Documentary stamp tax	4,569,877	4,150,849
	40,999,448	30,695,313

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	2022	2021
Salaries, wages and employee benefits	23	343,434,387	302,927,722
Equipment maintenance		222,230,298	205,023,612
Depreciation and amortization	8,9	181,812,394	134,422,678
Meetings and marketing campaigns		177,049,716	126,512,006
Professional fees		67,849,430	59,017,814
Other taxes and licenses		48,442,511	23,981,068
Utilities		29,069,972	20,424,698
Communication		27,004,342	19,573,460
Travel		19,590,988	10,867,914
Rent	29	18,446,789	8,528,281
Entertainment, amusement and recreation		13,698,859	8,697,558
Recruitment		12,594,272	7,737,001
Printing and supplies		8,831,610	6,409,843
Interest expenses	13,29	4,160,704	4,949,413
Membership fees		1,952,703	3,133,094
Others		83,906,593	86,648,837
		1,260,075,568	1,028,854,999

Others pertain to regional charges, 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	2022	2021
Salaries and wages		544,436,791	468,768,049
Net pension expense	24	21,883,809	25,039,813
Life and health insurance		19,808,345	14,177,385
Staff meetings and activities		16,061,362	13,959,573
Employee assistance		11,179,539	12,053,846
Social security costs		10,943,768	9,099,710
Staff subsidy		8,915,321	12,800,490
Net increase in restricted stock units		6,741,888	8,835,507
Other benefits		24,319,340	17,851,733
		664,290,163	582,586,106

Other benefits include sick leave conversion and employee rewards.

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

	Note	2022	2021
Insurance expenses		320,855,776	279,658,384
General and administrative expenses	22	343,434,387	302,927,722
Total salaries, wages and employee benefits		664,290,163	582,586,106

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 300% 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. For 2022, 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 P6,741,888 (2021 - P8,835,507) (Notes 22).

As of December 31, 2022, provisions in relation to the RSU recognized under the “Accrued expenses” account of “Accounts payable, accrued expenses, and provisions” in the Company’s statement of financial position amounted to P43,941,086 (2021 - P83,405,246) (Note 13).

Reconciliation of outstanding grants as of December 31 follows:

	2022	2021
January 1	1,789	1,447
Granted	829	342
December 31	2,618	1,789

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:

	2022	2021
Share price	€ 200.99	€ 203.13
Dividend yield	5.8%	5.5%
Expected volatility	21.20%	17.90%
Risk-free interest rate	0.30%	0.50%

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 date 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 for the year ended amounted to P26,272,287 (2021 - P18,624,735) (Note 4). The increase in fair value recorded under “Net fair value (loss) gain on financial assets at FVTPL” for the year ended amounted to P2,015,165 (2021 - P3,319,151) (Note 4).

The fair value of the Rights, as determined by Allianz SE, is based on best estimate for the value of a hedge right. The fair value of Rights is considered to be Level 2.

24. Employee benefits

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

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

(a) Net pension expense

	Note	2022	2021
Current service cost		19,883,475	23,081,077
Net interest cost		2,000,334	1,958,736
Net pension expense	23	21,883,809	25,039,813

(b) Remeasurement adjustments

	2022	2021
Actuarial gain on defined benefit obligation	(24,751,064)	(34,346,530)
Actuarial loss on plan assets	1,394,216	7,156,999
Remeasurement gains for the year	(23,356,848)	(27,189,531)
Deferred income tax effect	5,839,212	10,166,026
Remeasurement gains, net of tax	(17,517,636)	(17,023,505)

(c) Net pension liability

	2022	2021
Present value of defined benefit obligation	107,968,822	108,038,603
Fair value of plan assets	(69,673,454)	(67,709,289)
Net pension liability	38,295,368	40,329,314

Changes in the present value of defined benefit obligation follow:

	2022	2021
Defined benefit obligation, beginning of year	108,038,603	121,901,877
Current service cost	19,883,475	23,081,077
Interest cost	5,358,715	4,376,277
Benefits paid	(560,907)	(6,974,098)
Remeasurements in other comprehensive income		
Actuarial changes arising from changes in financial assumptions	(29,605,031)	(35,444,809)
Actuarial changes arising from experience adjustments	4,853,967	1,098,279
Defined benefit obligation, end of year	107,968,822	108,038,603

Non-vested benefits for the year ended December 31, 2022 amounts to P107,968,822 (2021 - P108,038,603).

Changes in the fair value of plan assets follow:

	2022	2021
Fair value of plan assets, beginning of year	67,709,289	67,340,981
Contribution	560,907	12,081,864
Interest income	3,358,381	2,417,541
Benefits paid	(560,907)	(6,974,098)
Actuarial loss on plan asset	(1,394,216)	(7,156,999)
Fair value of plan assets, end of year	69,673,454	67,709,289

The Company does not expect contributions to the retirement benefit plan for the year ended December 31, 2022 (2021 - P22 million).

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

	2022	2021
Discount rate	7.07%	4.96%
Rate of salary increases	5.00%	5.00%

Mortality table and disability table used in the valuation in 2022 and 2021 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:

	2022	2021
Cash	18,184,332	2,311,756
Fixed-income securities	51,265,608	65,556,130
Accrued interest	170,181	250,097
Other assets	142,376	36,565
Total assets	69,762,497	68,154,548
Liabilities	89,043	445,259
Net assets	69,673,454	67,709,289

Pension plan assets of the retirement plan include investments in PNB's unit investment trust funds for the year ended December 31, 2022 amounting to P9.63 million (2021 - P16.50 million). For 2022, unrealized loss coming from these investments amounted to P0.03 million (2021 - P0.78 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		
2022	Change in assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 0.50%	(5,704,321)	6,155,531
Salary increase rate	+/- 0.25%	2,808,158	(2,718,488)
Turnover rate	+/- 10.00%	3,906,759	(3,906,759)

	Impact on defined benefit obligation		
2021	Change in assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 0.50%	(6,551,754)	7,124,155
Salary increase rate	+/- 0.25%	3,212,177	(3,100,588)
Turnover rate	+/- 10.00%	4,903,120	(4,903,120)

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	
	2022	2021
Date of retirement		
Payable in the next 5 years	5%	5%
Payable in the next 6 - 10 years	14%	19%
Payable beyond 10 years	81%	76%

The average duration of the defined benefit obligation as of December 31, 2022 is 14 years (2021 - 15 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:

	2022	2021
Current		
Final tax	110,562,010	107,093,051
Minimum corporate income tax - Current year	5,384,728	4,839,570
Minimum corporate income tax - Prior year	(4,013,110)	-
Deferred	(45,424,135)	(17,525,612)
	66,509,493	94,407,009

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

	Note	2022	2021
Tax effects of:			
Accrued expenses		210,863,828	171,944,548
Unrealized foreign exchange loss		4,482,593	-
Net pension liability		4,206,621	10,045,833
Unamortized excess contribution		2,362,547	3,072,874
Net increase in restricted stock units		1,685,472	7,231,651
Deferred tax assets	27	223,601,061	192,294,906
Tax effects of:			
Unrealized foreign exchange gain		-	(7,231,651)
Lease liability		(498,393)	-
Unrealized gain on derivative asset		(503,791)	(2,049,301)
Unrealized fair value changes in fluctuation of AFS		(8,820,000)	(7,920,000)
Deferred tax liabilities		(9,822,184)	(17,200,952)
Deferred tax assets, net		213,778,877	175,093,954

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

	2022	2021
At January 1	175,093,954	169,534,369
Amounts recognized in statement of income	45,424,135	17,525,611
Amounts recognized in other comprehensive income	(6,739,212)	(11,966,026)
At December 31	213,778,877	175,093,954

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:

	2022	2021
Net operating losses carry over	1,003,754,767	1,260,967,651
Minimum corporate income tax	22,218,595	25,767,455

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

Year of Payment	Year of Expiry	2022	2021
2022	2025	406,273,338	-
2021	2026	399,595,479	399,595,479
2020	2025	197,885,950	197,885,950
2019	2022	663,486,222	663,486,222
2018	2021	-	270,175,951
		1,667,240,989	1,531,143,602
Expired NOLCO		(663,486,222)	(270,175,951)
		1,003,754,767	1,260,967,651

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

Year of Payment	Year of Expiry	2022	2021
2022	2025	5,384,728	-
2021	2026	4,839,570	4,839,570
2020	2025	11,994,297	11,994,297
2019	2022	8,933,588	8,933,588
2018	2021	-	8,823,901
		31,152,183	34,591,356
Expired MCIT		(8,933,588)	(8,823,901)
		22,218,595	25,767,455

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

	2022	2021
Statutory income tax rate	25.00	25.00
Add (Deduct) tax effects of:		
Impact of change in income tax rate	-	(8.67)
Interest income subjected to final tax	55.60	(13.25)
Income exempt from tax	1.21	(1.15)
Temporary deductible differences for which no deferred tax asset is recognized	(9.51)	2.39
Nondeductible expenses	(188.92)	42.39
Effective income tax rate	(116.62)	46.71

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

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

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

As a result of the CREATE law, the Company adjusted its deferred income tax assets and liabilities using the revised corporate income tax rate which resulted in a decrease of P29,275,728 in 2021. The Company likewise recognized a decrease of P17,525,611 in deferred income tax expense.

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, 2022:

	Transactions	Outstanding balances	Terms and conditions
Parent Company			
Allianz SE			
Additional capital contribution (Note 14)	408,000,000	-	- Represents additional capital contribution - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Net increase in RSU, including fair value adjustments (Note 23)	6,741,888	43,941,086	- Non-interest-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)	7,647,552	26,272,287	- Non-interest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Consultancy fee	9,825,847	6,706,804	- Non-interest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Software Maintenance	4,757,324	-	- Non-interest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Staff Training	743,506	-	- Non-interest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
SW License Fee	28,195	-	- Non-interest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Significant investor			
PNB			
Additional capital contribution (Note 14)	392,000,000	-	- Represents additional capital contribution - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Savings and current accounts	391,748,162	391,748,162	- Interest-bearing at 0.10% - Unsecured and unguaranteed
Time deposits (Note 2)	14,000,000	-	- Interest-bearing at 3.00% - Unsecured and unguaranteed
Retirement fund	560,907	69,673,454	- Refer to Note 24
Referral fees	610,065,779	29,273,905	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Rent expense	1,846,099	-	- Due and demandable, settled in cash at gross - Unsecured and unguaranteed
Premiums collected	7,653,891	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Claims	3,842,767	22,523,192	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed

	Transactions	Outstanding balances	Terms and conditions
Entities under common control			
Allianz Investment Management Singapore (AIMS)			
Investment management fees	9,212,870	2,900,000	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Technology SE			
EDP-Software	23,452,458	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Software maintenance	11,941,503	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Software license fee	4,935,227	211,821	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Technology Singapore			
EDP-Software	48,689,237	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Software License Fee	13,212,246	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Asia Pacific			
Consultancy Fee	62,236,177	51,734,534	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
IDS Gmbh			
Software maintenance	482,683	482,683	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Malaysia Berhad PLC			
Software maintenance	602,153	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
AWP Services (Thailand) Co. Ltd.			
Medical fees	4,337,349	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Worldwide Care SA			
Health Insurance Fee	645,665	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Reinsurance Asia Pacific (ARAP)			
Reinsurance	30,349,692	28,366,145	- 90-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
AWP Health & Life S.A.			
Reinsurance	18,463,739	6,216,751	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Global Life DAC			
Reinsurance	7,336,017	-	- 90-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Other related parties			
PNB Holdings Corporation			
Rent expense	39,630,662	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Philippine Airlines, Inc.			
Premiums collected	14,118,947	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Key management compensation			
Salaries and other short-term benefits	126,028,303	-	Refer to Note 13 for RSU and Note 23 for salaries and other short-term benefits, relocation benefits, and retirement cost.
RSUs	6,741,888	43,941,086	
Relocation benefits	925,227	-	
Retirement cost	6,563,457	-	

As at and for the year ended December 31, 2021:

	Transactions	Outstanding balances	Terms and conditions
Parent Company			
Allianz SE			
Additional capital contribution (Note 14)	255,000,000	-	- Represents additional capital contribution - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Net increase in RSU, including fair value adjustments (Note 23)	8,835,507	83,405,246	- 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)	4,319,382	18,624,735	- Noninterest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Consultancy fee	7,549,688	4,362,602	- Non-interest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Software Maintenance	2,415,552	-	- Non-interest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Staff Training	959,027	-	- Non-interest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
SW License Fee	526,546	-	- Non-interest-bearing - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Significant investor			
PNB			
Additional capital contribution (Note 14)	245,000,000	-	- Represents additional capital contribution - Unsecured and unguaranteed - Due and demandable, settled in cash at gross
Savings and current accounts	457,053,621	457,053,621	- Interest-bearing at 0.10% - Unsecured and unguaranteed
Time deposits (Note 2)	200,180,000	-	- Interest-bearing at 3.00% - Unsecured and unguaranteed
Retirement fund	12,081,864	67,709,289	- Refer to Note 24
Referral fees	503,191,838	102,703,652	- 15-day; non-interest bearing - Unsecured and unguaranteed - Settled in cash at gross
Rent expense	1,883,543	55,427	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Premiums	12,232,021	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Claims	35,159,709	13,038,382	- 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	6,955,209	2,900,000	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Technology SE Ltd.			
EDP-Software	9,575,227	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Software Maintenance	15,057,370	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Software license fee	20,422,322	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Technology Singapore			
EDP-Software	8,501,015	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Software License Fee	41,992,186	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross

	Transactions	Outstanding balances	Terms and conditions
Allianz Technology (Thailand) Co. Ltd.			
EDP-Software	2,500,000	2,500,000	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Asia Pacific			
Consultancy Fee	54,248,982	50,717,442	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Malaysia Berhad PLC			
Software maintenance	321,239	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
AWP Services (Thailand) Co. Ltd.			
Medical fees	2,899,473	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Reinsurance Asia Pacific (ARAP)			
Reinsurance	16,856,154	11,249,813	- 90-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
AWP Health & Life S.A.			
Reinsurance	19,824,263	6,551,749	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Allianz Global Life DAC			
Reinsurance	8,665,473	-	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
Other related parties			
PNB Holdings Corporation			
Rent expense	24,670,401	10,997,393	- 30-day; non-interest-bearing - Unsecured and unguaranteed - Settled in cash at gross
PNB Savings			
Premiums collected	61,667,214	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Claims	3,387,675	5,742,042	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Japan PNB Finance and Leasing Corporation			
Premiums collected	31,198	-	- Due and demandable, settled in cash at gross - Noninterest-bearing - Unsecured and unguaranteed
Key management compensation			
Salaries and other short-term benefits	111,017,777	-	Refer to Note 13 for RSU and Note 23 for salaries and other short-term benefits, relocation benefits, and retirement cost.
RSUs	8,835,507	83,405,246	
Relocation benefits	-	-	
Retirement cost	7,501,009	-	

Other related parties pertain to entities under control of the significant investor.

Receivables from related parties are deemed fully collectible. No impairment provision is considered necessary.

27. Significant accounting judgments and estimates

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

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

(a) 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:

AFS investments (Note 4)

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

Management believes, based on its assessment, that AFS financial assets are fully recoverable and not considered impaired as at December 31, 2022 and 2021. No allowance for impairment of AFS financial assets has been assessed and recognized for 2022 and 2021.

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

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

These investment funds are generally subject to stringent regulatory requirements from financial institutions. 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.

Management has assessed that the financial assets for unit-linked contacts are classified as structured entities based on the requirements of PFRS 12. Management has also assessed that the Company does not have control over these investment funds based on an analysis of the guidance in PFRS 10. Furthermore, neither the Company nor the fund managers have the ability to influence the investment fund returns and the fund managers are only acting as a manager whose responsibilities are limited to those activities provided in the asset management agreements. As such, the Financial assets and liabilities for unit-linked contracts are presented as a separate line item in the financial statements of the Company. The details of these funds are disclosed in Note 3.

Recognition of deferred tax assets (Note 25)

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

Gross deferred tax assets recognized for the year ended December 31, 2022 amounted to P223,601,061 (2021 - P192,294,906) (Note 25) are considered to be fully recoverable. As at December 31, 2022, the Company has unrecognized deferred tax assets amounting to P1,025,973,362 (2021 - P1,286,735,106) as management assessed that there are no sufficient taxable profit against which the deferred tax asset can be applied. The unrecognized deferred tax assets comprised both NOLCO and MCIT.

(b) Estimates

Aggregate reserves for life policies (Note 10)

Reserves for traditional life insurance policies are valued using gross premium valuation (GPV) method. GPV requires the use of best estimate assumptions which 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 contract liabilities” account in the statements of financial position as of December 31, 2022 amounted to P8,827,898,420 (2021 - P10,862,888,492) (Note 10). Sensitivity analysis relating to these key assumptions are further disclosed in Note 11.

Contingencies (Note 29)

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 29).

28. Capital management and management of insurance and financial risks

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

(a) Governance framework

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

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

(b) Regulatory framework

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

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

(c) Regulatory capital

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

Fixed capitalization requirements

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

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

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

As of December 31, 2022, the Company’s statutory net worth amounted to P1,784,408,048 (2021 - P1,021,218,314).

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 integrates the compliance standards for the fixed capitalization and risk-based capital framework.

Risk Based Capital 2

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.

	2022	2021
Available capital	1,769,317,770	1,405,862,794
RBC requirement	324,968,807	437,409,771
RBC Ratio	544%	321%

(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.

(d) Insurance risk

Nature of risk

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

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

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

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

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

Frequency of claims

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

For contracts with discretionary participating feature, a portion of the insurance risk is effectively shared with the policy owner, as policy dividends may be reduced due to adverse claims and investment experience.

For unit-linked insurance policies where the cost of insurance charges is not guaranteed, insurance risk is borne mostly by the policyholders. The Company has the right to alter the related charges based on its mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

The Company manages these risks through its underwriting strategy and reinsurance arrangements. The underwriting strategy is intended to ensure that the risks underwritten are pooled into a sufficiently large portfolio. Medical selection is also included in the underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. The Company has a retention limit of P2.5 million on any individual standard risk. The Company reinsures the excess of the insured benefit over P2.5 million for standard risks (from a medical point of view) under an automatic reinsurance arrangement.

The tables below present the concentration of individually insured benefits across different bands of insured ages as measured by the face amount (before reinsurance) and net amount at risk or NAAR (after reinsurance).

			2022			
			Before reinsurance		After reinsurance	
Age bands (in years)	Policy count	Face amount (in thousands)	NAAR (in thousands)	Concentration (%)	NAAR (in thousands)	Concentration (%)
0-15	28,983	33,522,227,090	25,748,829,316	11	7,488,760,018	12
16-25	23,700	33,079,171,851	26,038,850,662	11	6,926,073,666	11
26-35	35,510	52,737,168,332	41,993,393,217	18	10,566,383,830	17
36-45	38,837	64,180,454,373	49,632,893,225	22	11,461,205,277	19
46-55	37,253	66,093,348,258	47,313,328,053	20	11,640,488,903	19
56-65	27,443	53,310,821,961	33,398,954,752	14	10,766,962,590	17
66-75	6,027	15,344,878,832	9,391,438,103	4	3,093,542,641	5
76 and above	3	3,000,000	2,982,222	0	1,005,732	0
	197,756	318,271,070,697	233,520,669,550	100	61,944,422,657	100

			2021			
			Before reinsurance		After reinsurance	
Age bands (in years)	Policy Count	Face amount (in thousands)	NAAR (in thousands)	Concentration (%)	NAAR (in thousands)	Concentration (%)
0-15	27,387	27,306,066,140	20,092,129,771	12	6,781,920,764	17
16-25	20,802	26,642,655,320	20,627,391,177	13	4,939,386,603	12
26-35	29,972	37,874,964,045	29,050,045,243	18	7,041,186,786	17
36-45	32,929	50,597,661,311	37,934,297,956	23	7,916,248,005	19
46-55	30,793	47,524,698,957	31,230,580,790	19	7,409,804,374	18
56-65	21,207	35,702,750,608	19,380,490,061	12	5,402,358,293	13
66-75	4,306	10,791,409,685	5,977,564,331	3	1,474,489,827	4
76 and above	5	21,258,050	10,714,713	0	8,739,124	0
	167,401	236,461,464,116	164,303,214,042	100	40,974,133,776	100

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

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

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

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

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

(e) 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.

Financial assets at FVTPL and 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 non-financial assets, analyzed based on inputs to fair value:

2022	Carrying value	Level 1	Level 2	Level 3	Total fair value
Financial assets at FVTPL					
Quoted equity securities	7,680,000	7,680,000	-	-	7,680,000
Derivative asset	26,272,287	-	26,272,287	-	26,272,287
Investment in unit-linked funds	216,576,220	117,438,629	99,137,591	-	216,576,220
Financial assets for unit-linked contracts	77,121,915,674	76,775,833,469	346,082,205	-	77,121,915,674
AFS financial assets					
Government debt securities	9,649,111,323	9,649,111,323	-	-	9,649,111,323
Private debt securities	2,020,714,804	1,773,860,167	246,854,637	-	2,020,714,804
Equity securities	78,000,000	78,000,000	-	-	78,000,000
Total financial assets carried at fair value	89,120,270,308	88,401,923,588	718,346,720	-	89,120,270,308
Financial liabilities for unit-linked contracts	77,121,915,674	76,775,833,469	346,082,205	-	77,121,915,674

2021	Carrying value	Level 1	Level 2	Level 3	Total fair value
Financial assets at FVTPL					
Quoted equity securities	8,115,200	8,115,200	-	-	8,115,200
Derivative asset	18,624,735	-	18,624,735	-	18,624,735
Investment in unit-linked funds	165,062,316	94,357,637	-	70,704,679	165,062,316
Financial assets for unit-linked contracts	62,924,001,805	62,541,386,058	-	382,615,747	62,924,001,805
AFS financial assets					
Government debt securities	9,903,851,153	9,903,851,153	-	-	9,903,851,153
Private debt securities	2,989,601,271	2,247,062,185	742,539,086	-	2,989,601,271
Equity securities	72,000,000	72,000,000	-	-	72,000,000
Total financial assets carried at fair value	76,081,256,480	74,866,772,233	761,163,821	453,320,426	76,081,256,480
Financial liabilities for unit-linked contracts	62,924,001,805	62,541,386,058	-	382,615,747	62,924,001,805
	13,157,254,675	12,325,386,175	761,163,821	70,704,679	13,157,254,675

In 2022, investment in unit-linked funds and financial assets for unit-linked contracts with a fair value of P99,137,591 and P346,082,205 were transferred out of Level 3 into Level 2 fair value due to the availability of improvement in observable inputs closer to maturity date.

Fair values of financial instruments are estimated as follows:

(i) AFS financial assets

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

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

The fair values of equity and debt securities under Level 1 of the fair value hierarchy are determined by reference to quoted market bid prices, at the close of business reporting date, or the last reporting date.

The fair values of equity-linked note under Level 2 of the fair value hierarchy are determined by running simulations on underlying indices that are directly observable to project the possible payouts of the instruments. The value of financial liabilities for unit-linked contracts follows those of the underlying assets.

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 based on standard mathematical models and market data as of the valuation date (Level 2).

(iv) Other financial assets (at amortized cost)

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 VUL (Level 2) can be decomposed into underlying fixed income security, foreign exchange movements from Cross Currency Swap (CCS) and the value of the underlying option. The fair value of structured note has been computed by the Issuer using present value calculations and option pricing models, as applicable. Management performs reasonableness assessment of the Issuer's calculated value of the structured VUL. The inputs used in the reasonableness assessment are summarized in the table below:

Structured note	Significant observable Inputs
Dollar denominated	US Dollar/Philippine Peso Spot Rate INGUSGCE Index

As at December 31, 2022, the management assessed that the underlying option's time value is close to zero as the maturity date of the structured note is less than one year, and as such, the intrinsic value of the underlying option has been used as reference.

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2021 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 significant unobservable inputs follows:

Structured investments	Significant unobservable inputs	Range of input	Sensitivity of the input to fair value
Dollar denominated	US Dollar/Philippine Peso Spot Rate	P51.06 - P51.39	1% increase/(decrease) in the change inputs would result to a (decrease)/increase in the MV of the notes by P605,215
	INGUSGCE Index	107.52 - 107.63 bps	

Notes: Range is from lower to upper bound in 2021.

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.

In 2022, there were no sensitivity analysis of the fair market values of structured notes due to transfer out from Level 3 fair value hierarchy to Level 2.

Roll-forward analyses for the balances of structured notes are as follows:

2022	Global Treasures	High Street Peso	Total
Beginning	382,615,747	-	382,615,747
Purchases	-	-	-
Maturities	-	-	-
Revaluation*	(36,533,542)	-	(36,533,542)
	346,082,205	-	346,082,205

**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.*

2021	Global Treasures	High Street Peso	Total
Beginning	400,694,246	240,542,530	641,236,776
Purchases	-	-	-
Maturities	-	(255,013,856)	(255,013,856)
Revaluation*	(18,078,499)	14,471,326	(3,607,173)
	382,615,747	-	382,615,747

**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.*

(f) 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.

(g) 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 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 and 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, 2022 and 2021, the Company’s capital guaranteed products are still performing above the guaranteed amounts.

As of December 31, 2022 and 2021, 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.

2022	Neither past due nor impaired: Investment grade	Neither past due nor impaired: Non-investment grade satisfactory	Past due or impaired	Total
Financial assets				
Cash and cash equivalents*	1,249,931,192	-	-	1,249,931,192
Insurance receivables	-	35,442,964	-	35,442,964
AFS financial assets				
Government debt securities	9,649,111,323	-	-	9,649,111,323
Private debt securities	2,020,714,804	-	-	2,020,714,804
Financial assets at FVTPL				
Derivative asset	26,272,287	-	-	26,272,287
Loans and receivables (Note 6)				
Policy loans	-	332,934,129	-	332,934,129
Accrued income	162,063,417	-	-	162,063,417
Due from unit-linked fund	52,587,257	-	-	52,587,257
Advances from employees and agents	-	53,773,652	-	53,773,652
Other receivables	-	7,315,190	-	7,315,190
Rental and other deposits	-	18,870,907	-	18,870,907
Total financial assets	13,160,680,280	448,336,842	-	13,609,017,122

Excluding petty cash fund.

2021	Neither past due nor impaired: Investment Grade	Neither past due nor impaired: Non-investment grade satisfactory	Past due or Impaired	Total
Financial assets				
Cash and cash equivalents*	1,460,733,622	-	-	1,460,733,622
Insurance receivables	-	59,197,169	-	59,197,169
AFS financial assets	-	-		
Government debt securities	9,903,851,153	-	-	9,903,851,153
Private debt securities	2,989,601,271	-	-	2,989,601,271
Financial assets at FVTPL				
Derivative asset	18,624,735	-	-	18,624,735
Loans and receivables (Note 6)	-			
Policy loans	-	310,545,670	-	310,545,670
Accrued income	173,788,305	-	-	173,788,305
Due from unit-linked fund	56,526,409	-	-	56,526,409
Advances from employees and agents	-	53,378,098	-	53,378,098
Other receivables	-	22,071,824	-	22,071,824
Rental and other deposits	-	19,280,107	-	19,280,107
	14,603,125,495	464,472,868	-	15,067,598,363

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 and financial assets for unit-linked contracts are classified as investment grade and there are no impaired securities. Hence, no impairment losses were recognized for the years ended December 31, 2022 and 2021.

(h) Liquidity risk

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

The overall liquidity depends on capital market developments, interest rate levels, and the Company's ability to realize the market value of its investment portfolio to meet insurance claims and policyholder benefits. Liquidity needs are also influenced by trends in actual mortality rates compared to the assumptions underlying life insurance reserves. Market returns, crediting rates, and the behavior of the 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 contract liabilities, based on the estimated timing of net cash outflows.

2022	Up to a year*	1 to 3 years	3 to 5 years	Over 5 years	Total undiscounted liabilities	Present value of liabilities
Insurance contract liabilities	1,813,705,105	912,969,656	2,020,738,461	17,211,613,604	21,959,026,826	9,865,845,477
Due to reinsurer	52,672,159	-	-	-	52,672,159	52,672,159
Premium deposit fund	176,378,281	-	-	-	176,378,281	176,378,281
Accounts payable and accrued expenses	2,081,832,062	-	-	-	2,081,832,062	2,081,832,062
Lease liability	43,549,402	97,831,624	-	-	141,381,026	104,134,817
Financial liabilities for unit-linked contracts	77,121,915,674	-	-	-	77,121,915,674	77,121,915,674
Total financial liabilities	81,290,052,683	1,010,801,280	2,020,738,461	17,211,613,604	101,533,206,028	89,402,778,470

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

2021	Up to a year*	1 to 3 years	3 to 5 years	Over 5 years	Total undiscounted liabilities	Present value of liabilities
Insurance contract liabilities	1,595,352,055	801,623,621	1,564,544,817	18,094,693,879	22,056,214,372	11,769,466,896
Due to reinsurer	25,725,084	-	-	-	25,725,084	25,725,084
Premium deposit fund	239,724,748	-	-	-	239,724,748	239,724,748
Accounts payable and accrued expenses	1,881,370,306	-	-	-	1,881,370,306	1,881,370,306
Lease liability	39,494,098	90,334,085	179,683	-	130,007,866	126,915,979
Financial liabilities for unit-linked contracts	62,541,386,058	382,615,747	-	-	62,924,001,805	62,924,001,805
Total financial liabilities	66,323,052,349	1,274,573,453	1,564,724,500	18,094,693,879	87,257,044,181	76,967,204,818

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

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

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

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

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

	Limit
Minimum working capital level	Higher of P100million or weekly funding requirement
Maximum liquidity intensity ratio (after stress) = Liquidity needs/Liquidity sources To further mitigate liquidity risk in extreme event	80% of total invested assets

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

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

Target limit of allocation in liquid assets (cash and cash equivalents including repos) has a leeway of +/-10% for both PHP and USD. This is in line with the set Strategic Asset Allocation (SAA) of the Company.

(i) 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 (interest rate risk), and market price (equity price risk).

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 market risk (currency risk, interest rate risk and other price 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, 2022 and 2021, the Company's capital guaranteed products are still performing above the guaranteed amounts.

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.

(j) 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.

	2022		2021	
	US$	PHP	US$	PHP
Financial assets				
Cash and cash equivalents	8,274,888	461,366,396	21,227,136	1,020,388,475
Investment in unit-linked funds	193,558	9,743,706	232,738	11,869,392
AFS financial assets	35,163,300	1,770,120,545	39,234,745	2,000,932,773
Accrued interest	12,711	708,675	3,664	186,860
Policy loans, including due and uncollected premiums	762,655	42,521,865	1,001,078	51,053,979
	44,407,112	2,284,461,187	61,699,361	3,084,431,479

	2022		2021	
	US$	PHP	US$	PHP
Financial liabilities				
Aggregate reserves on life policies	28,258,206	1,575,536,257	41,307,999	2,106,666,441
Premium deposit fund	281,232	15,680,098	452,593	23,081,802
	28,539,438	1,591,216,355	41,760,592	2,129,748,243
	15,867,674	693,244,832	19,938,769	954,683,236

The foreign exchange rate used in 2022 was P55.76 to US$1 (2021 - P50.99 to US$1).

Unrealized foreign exchange loss recognized in the statements of income under Foreign exchange loss, net in 2022 amounted to P5,892,624 (2021 - gain of P35,540,596).

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). 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
2022	US$	0.25%	1,658,817
		(0.25%)	(1,658,817)
2021	US$	0.25%	3,634,991
		(0.25%)	(3,634,991)

The Company determined the reasonably possible change in foreign exchange rates by using management's assessment of shift in Bankers Association of the Philippines (BAP) closing rates as at December 29, 2022.

(k) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate investments in government bonds and private debt securities classified as AFS financial assets are particularly exposed to fair value interest rate risk. The Company is not exposed to significant cash flow interest rate risk considering the nature and the terms of its significant financial assets and liabilities.

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

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

2022	Range of Interest rate	Maturity: Up to a year*	1-3 years	3-5 years	Over 5 years	Total
AFS financial assets						
Government debt securities						
Peso-denominated	2.88%-18.25%	1,319,536,471	353,758,774	176,036,100	6,577,929,626	8,427,260,971
Dollar-denominated	2.65%-9.5%	-	162,230,574	-	1,059,619,777	1,221,850,352
Private debt securities						
Peso-denominated	4.2%-6.49%	396,789,371	971,945,195	82,362,411	21,347,634	1,472,444,610
Dollar-denominated	3%-8.6%	242,819,827	123,113,062	63,491,006	118,846,299	548,270,194
Total AFS financial assets		1,959,145,669	1,611,047,605	321,889,517	7,777,743,336	11,669,826,127

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

2021	Range of Interest rate	Maturity: Up to a year*	1-3 years	3-5 years	Over 5 years	Total
AFS financial assets						
Government debt securities						
Peso-denominated	2.88%-18.25%	10,268,300	87,264,590	390,244,254	7,997,028,759	8,484,805,903
Dollar-denominated	2.65%-9.5%	-	167,672,587	-	1,251,372,663	1,419,045,250
Private debt securities						
Peso-denominated	0.00%-6.88%	136,218,030	754,218,436	826,736,218	690,541,064	2,407,713,748
Dollar-denominated	3.0%-8.60%	-	359,432,486	-	222,455,037	581,887,523
Total AFS financial assets		146,486,330	1,368,588,099	1,216,980,472	10,161,397,523	12,893,452,424

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

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

2022	Change in variables	Impact on equity
Peso	+0.25%	(130,079,313)
US Dollar	+0.25%	(31,801,258)
Peso	-0.25%	143,258,030
US Dollar	-0.25%	32,966,865
2021	**Change in variables**	**Impact on equity**
Peso	+0.25%	(182,624,217)
US Dollar	+0.25%	(34,663,373)
Peso	-0.25%	187,626,058
US Dollar	-0.25%	35,829,528

The Company determined the reasonably possible change in fair value interest rate risk by using management's assessment of the reasonable shift of the Company's sustainable portfolio yields.

(l) Equity price risk

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

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

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

The fair value of listed equity securities classified as financial assets at FVTPL as at December 31, 2022 amounted to P7,680,000 (2021 - P8,115,200) (Note 4). The fair value of proprietary shares classified as AFS financial assets as at December 31, 2022 amounted to P78,000,000 (2021 - P72,000,000) (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.

2022	Change in variables	Impact on equity/profit or loss after tax
PSEi	5.08%	226,699
PSEi	-5.08%	(226,699)
2021	**Change in variables**	**Impact on equity/profit or loss after tax**
PSEi	5.30%	354,102
PSEi	-5.30%	(354,102)

The impact to equity and profit or loss after tax is arrived at using the reasonably possible change of PSEi closing rate as at December 29, 2022 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.

Based on the exposure to equity price risks of proprietary shares classified as AFS financial assets at December 31, 2022, if prices had been 10% higher or lower, equity for the year ended December 31, 2022, would have increased or decreased by P7,800,000 (2021 - P7,200,000). The shift in prices has been determined using management's assessment of a material fluctuation in fair value of proprietary shares.

(m) Deferral of PFRS 9, Financial instruments

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

In November 2018, the IASB Board voted to propose a one-year deferral of the effective date for PFRS 17 to 2022. As a consequence of the PFRS 17 deferral, the Board also agreed to revise the fixed expiry date of the temporary exemption from PFRS 9 in PFRS 4 to allow entities to continue applying the temporary exemption from PFRS 9 until January 1, 2023.

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

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

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

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

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

The Company did not subsequently reassess its eligibility for the temporary exemption from PFRS 9 as there was no change in the Company's activities from December 31, 2015 to December 31, 2022 and 2021.

The following table provides an overview of the fair values as at December 31, 2022 and 2021, 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, 2022				
Cash and cash equivalents	1,249,931,192	-	-	-
Financial assets for unit-linked contracts	-	-	77,121,915,674	-
Financial assets at fair value through profit or loss	-	-	250,528,507	136,726,256
Available-for-sale financial assets	10,838,593,481	(1,005,656,285)	909,232,646	(211,970,013)
Loans and receivables (Note 6)	275,739,516	-	-	-
Rental and other deposits	18,870,907	-	-	-
	12,383,135,096	(1,005,656,285)	78,281,676,827	(75,243,757)

	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, 2021				
Cash and cash equivalents	1,460,697,622	-	-	-
Financial assets for unit-linked contracts	-	-	62,924,001,805	-
Financial assets at fair value through profit or loss	-	-	191,802,251	(596,570,053)
Available-for-sale financial assets	11,844,249,766	(395,795,625)	1,121,202,658	(27,541,562)
Loans and receivables (Note 6)	305,764,636	-	-	-
Rental and other deposits	19,280,107	-	-	-
	13,629,992,131	(395,795,625)	64,237,006,714	(624,111,615)

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

The following tables provide information about the credit risk exposures for financial assets with contractual terms that meet the SPPI criterion at December 31, 2022 and 2021. 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, 2022				
Cash and cash equivalents	1,249,931,192	-	-	1,249,931,192
Available-for-sale financial assets	10,838,593,481	-	-	10,838,593,481
Loans and receivables	215,837,069	59,902,447	-	275,739,516
Rental and other deposits	-	18,870,907	-	18,870,907
	12,304,361,742	78,773,354	-	12,383,135,096
December 31, 2021				
Cash and cash equivalents	1,460,697,622	-	-	1,460,697,622
Available-for-sale financial assets	11,844,249,766	-	-	11,844,249,766
Loans and receivables	230,314,714	75,449,922	-	305,764,636
Rental and other deposits	-	19,280,107	-	19,280,107
	13,535,262,102	94,730,029	-	13,629,992,131

The fair values of financial assets included in the tables above that are non-investment grade, and thus do not have low credit risk as of December 31, 2022 and 2021, approximately equal the respective carrying amounts.

29. Contingencies and commitments

Contingencies

The Company has various litigations during the year and has reasonably provided for possible costs that it may incur for the resolution of these claims. There were no other provisions for probable loss recognized in 2022 and 2021. This has been assessed in consultation with the Company’s legal counsels and based upon an analysis of potential results. The Company has deposited P7,169,566 (Note 7) to an appellate court in relation to its pending case.

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

Lease commitments

The Company leases various office for its back office and operations. The Company also has several lease agreements covering the head office premises and branch offices for periods ranging from 1 to 5 years until February 2026. These lease contracts are renewable upon mutual agreement of the Company and the lessors.

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, 2022 and 2021:

	2022	2021
Depreciation expenses	41,432,858	38,087,729
Interest expense (included in general and administrative expenses)	4,160,704	4,949,413
Expense relating to short-term leases (included in general and administrative expense)	18,446,789	8,528,281

The total cash outflow for leases as at December 31, 2022 is P43,599,990 (2021 - P44,784,874).

Discount rate

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

The incremental borrowing rates applied to measure the lease liabilities as at December 31, 2022 range from 0.98% to 5.90% (2021 - 0.98% to 5.90%).

If the incremental borrowing rate used to discount lease liability will differ by 1% from management's estimates, the carrying amount of lease liability in 2022 would be higher/lower by an estimated P1,132,084 (2021 - P821,457).

30. Summary of significant accounting policies

30.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with PFRS. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), 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 retirement plan assets used in calculating pension liability which have all been measured at fair value. The financial statements are presented in Philippine Peso ("Peso" or "PHP"), which is the Company's functional currency.

The Company's statements of financial position is not presented using a current and non-current classification. The property and equipment, net and software and intangible assets under development, net are generally considered to be non-current.

30.2 Changes in accounting policies and disclosures

(a) New standards and interpretations adopted by the Company

The following relevant amended standards have been adopted by the Company effective January 1, 2022:

- Amendment to PAS 16, '*Property, Plant and Equipment'*

  The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

- Amendment to PFRS 3, '*Business Combinations'*

  Amendments were made to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' and Interpretation 21, 'Levies'.

- PAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'*

  The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- *Annual Improvements to PFRS Standards 2018-2020*

  The following improvements were finalized in May 2020:

  i. PFRS 9, 'Financial Instruments', clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

  ii. PFRS 16, 'Leases', amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The adoption of the above amendments did not have a material impact on the financial statements of the Company.

(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, 2022 reporting period and has not been early adopted by the Company:

- IFRS 17, 'Insurance Contracts' (effective January 1, 2023). PFRS 17, 'Insurance contracts'. IFRS 17 was issued in May 2017 as replacement for IFRS 4, 'Insurance Contracts'. In addition, the IASB issued further amendments to IFRS 17 in June 2020 and December 2021. The December 2021 amendment permits the Company to present comparative information about financial assets as if the classification and measurement requirements of IFRS 9 'Financial Instruments' (IFRS 9) had been applied to that financial asset in the comparative period (the "Classification overlay").

  IFRS 17 is effective for annual reporting periods commencing on or after January 1, 2023. The adoption of IFRS 17 will result in significant changes to the accounting for insurance contracts issued and reinsurance contracts held by the Company. In the Philippines, in view of the impact of the COVID-19 pandemic, the Insurance Commission issued Circular Letter 2020-62 dated May 18, 2020 to further defer the implementation of PFRS 17 for life and non-life insurance industries to January 1, 2025.

  PFRS 17 provides comprehensive guidance on accounting for insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features. It introduces three new measurement models, reflecting a different extent of policyholder participation in investment performance or overall insurance entity performance. The general measurement model, also known as the building block approach, consists of the fulfillment cash flows and the contractual service margin. The fulfillment cash flows represent the risk-adjusted present value of an entity's rights and obligations to the policyholders, comprising estimates of expected cash flows, discounting, and an explicit risk adjustment for non-financial risk. The contractual service margin represents the unearned profit from in-force contracts that an entity will recognize as it provides services over the coverage period. The variable fee approach is a mandatory modification of the general measurement model regarding the treatment of the contractual service margin in order to accommodate direct participating contracts. The premium allocation approach is a simplified approach an entity may choose to use for short duration contracts or when certain criteria are met.

Measurement is not carried out at the level of individual contracts, but on the basis of groups of contracts. To build groups of contracts, an entity first needs to define portfolios which include contracts with similar risks that are managed together. These portfolios are to be subdivided into groups of contracts on the basis of profitability and annual cohorts.

PFRS 17 contains an accounting policy option to recognize changes in financial parameters either in profit or loss or in other comprehensive income. This so-called "OCI option" can be exercised at the level of individual portfolios. Under this option, loss reserves are discounted for profit or loss with locked-in interest rates from the respective accident years, and the discounting effect needs to be recognized as interest accretion in the investment result until reserves expire.

In general, direct participating business, where the rules on profit sharing are defined by legal or contractual rights, will be eligible for the variable fee approach. Indirect participating business, where the payments to the policyholder depend on the investment performance but there are no fixed rules on how the performance is passed on to the policyholders, as well as non-participating business, will be accounted for under general measurement model. The Company will continue to have unit-linked insurance contracts, which are contracts with significant insurance risk, and will be accounted for under the variable fee approach.

As at reporting date, Allianz Group has achieved a huge milestone for the IFRS 9 and 17 implementation with the finalization of the opening balance sheet. 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. Although the IFRS 17 implementation project has made significant progress, as of the date of these financial statements, it is not practicable to reliably quantify the effects in the Company's local financial statements.

- 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 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 PFRS 17 will need to be considered to assess the ultimate combined impact of both standards.

  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)'* given the strong interrelation between the measurement of direct participating insurance contracts and the underlying assets held until IFRS 17 becomes effective. 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 28.

- Amendments to PAS 1, *'Presentation of Financial Statements'*

  The amendments clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability.

In addition, PAS 1 requires entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

- Amendment to PAS 8, *'Accounting Policies, Changes in Accounting Estimates and Errors'*

  The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

- Amendments to PAS 12, *'Income Taxes*

  The amendments require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilized) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with (a) right-of-use assets and lease liabilities, and (b) decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets. The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate.

The adoption of above amendments or standards, except for PFRS 17 and PFRS 9, is not expected to have a material impact on the financial statements of the Company.

There are no other standards, amendments or interpretations that are effective beginning on or after January 1, 2022 that are considered relevant and have material impact to the Company.

30.3 Insurance product classification

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

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

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

30.4 Cash and cash equivalents

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

30.5 Insurance receivables

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

30.6 Fair value measurement

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

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

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

30.7 Financial instruments

30.7.1 Initial recognition

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

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

30.7.2 Day 1 difference

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

30.7.3 Classification

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

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

Financial assets or financial liabilities at FVTPL

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

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

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

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

The Company's financial liability at FVTPL pertains to financial liabilities for unit-linked contracts (Note 3).

The financial assets and liabilities for unit-linked contracts are designated as such since they are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Derivative financial instruments

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

The Company has derivative financial instruments in relation to its share-based obligation in form of restricted stock units (Note 23) as of December 31, 2022 and 2021. 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, 2022 and 2021, the Company has no embedded derivatives requiring bifurcation since the hybrid instruments have been designated as financial assets at FVTPL of which the characteristics and risks are closely related to the host contract.

HTM investments

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

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

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

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

As of December 31, 2022 and 2021, the Company does not have any HTM investments.

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.

The Company's Loans and receivables consist of cash and cash equivalents, premiums due and uncollected, policy loans, accrued income, advances to employees and agents, due from unit-linked funds, receivable from related parties, other receivables and rental and other deposits (Notes 2, 5 and 6).

AFS financial assets

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

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

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

The Company’s AFS financial assets consist of government debt securities, private debt securities and proprietary shares (Note 4).

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 “Premium deposit fund”, “Due to reinsurer” and “Accounts payable and accrued expenses” that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable).

30.7.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Company’s statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties. The Company does not have enforceable master netting arrangement or similar arrangement that meet the requirements for offsetting in line with PAS 32.

30.8 Classification of financial instruments between debt and equity

A financial instrument is classified as debt if it has a contractual obligation to:
- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- if the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation.

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

30.9 Impairment of financial assets

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

AFS financial assets carried at fair value

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

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

Financial assets carried at amortized cost

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

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

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

30.10 Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

30.11 Policy loans

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

30.12 Reinsurance

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

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

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

30.13 Property and equipment; Software

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

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

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

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

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

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

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

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

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

30.14 Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that its non-financial assets, mainly property and equipment, may be impaired. When an indicator of impairment exists or when an impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value and the risks specific to the property and equipment (or cash-generating unit). An impairment loss is charged against operations in the year in which it arises.

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

30.15 Insurance contract liabilities

Life insurance liabilities

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

30.15.1 Aggregate reserves for life policies

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

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

30.15.2 Policy and contract claim 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 claim payable form part of the liability section of the statement of financial position under "Insurance contract liabilities."

30.15.3 Reserve for policyholders' dividends due and unpaid

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

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

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

30.16 Unit-linked insurance contracts

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

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

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

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

30.17 Structured entities

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

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

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

30.18 Liability adequacy test

Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling, and policy administration expenses are used. Any deficiency is immediately charged against the statement of income initially by establishing a provision for losses arising from the liability adequacy tests. The adequacy of the liability on insurance contracts is tested based on the pricing assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of a new set of revised best estimate assumptions, such assumptions are used for the subsequent measurement of these liabilities. The liability adequacy test is addressed by the gross premium valuation performed by the Company for the aggregate reserves for life policies.

30.19 Equity

Capital stock

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

Additional paid-in capital (APIC)

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

Retained earnings (deficit)

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

Contingency surplus

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

30.20 Revenue recognition

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

Premium income

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

Interest income

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

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

Referral fee income

Policyholders of unit-linked insurance policies are charged for administrative fee for management of unit-linked funds. These fees are recognized as revenue in the period in which the related services are rendered.

Dividend income

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

30.21 Benefits, claims, and expenses recognition

Benefits and claims

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

Commissions and agency related compensation expense

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

Interest expense

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

General and administrative expenses

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

30.22 Leases

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

a) Measurement lease liability

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

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

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

To determine the incremental borrowing rate, the Company:

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

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

b) Measurement of ROU assets

ROU assets are measured at cost comprising the following:

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

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

c) Extension and termination options

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

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

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

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

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

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

Company as a lessee

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

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

30.23 Provisions

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

30.24 Share-based payments

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

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

30.25 Pension liability

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

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

Defined benefit costs comprise the following:

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

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

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies.

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

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

30.26 Income tax

Current tax

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

Deferred tax

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

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

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

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

Uncertainty over Income Tax Treatments

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

The Company has no uncertain tax position at reporting date.

30.27 Value-added Tax (VAT) and premiums tax

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

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

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

30.28 Foreign currency transactions and translations

Functional and presentation currency

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

Transactions and balances

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

30.29 Contingencies

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

30.30 Events after the reporting period

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

30.31 Comparatives

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

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

The Company reported and paid the following taxes in 2022:

(i) Premium tax

The Company is primarily engaged in the business of life insurance and paid the amount of P36,429,816 (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, 2022, the Company recognized taxable sales from management fee revenue and output tax in the amount of P737,497,466 and P88,499,696 respectively. Output VAT payable as at December 31, 2022 amounts to P8,400,822 which is presented in taxes payable under “Accounts payable, accrued expenses, and provisions” account.

Details of input VAT in 2022 follows:

	Amounts
Beginning balance	-
Add: Current year’s domestic purchases/payments for:	
Services	15,121,181
Goods other than capital goods	184,506
Capital goods not subject to amortization	2,008,733
Capital goods subject to amortization	1,835,025
Input VAT applied against output VAT	(19,149,445)
Total input VAT	-

As of December 31, 2022, the Company has an underapplied input VAT resulting to an overpayment of output vat amounting to P8,604,809. The underapplied input VAT is presented in deferred input VAT under “Other assets, net” account.

(iii) Custom duties and tariff

The Company does not have transactions subject to 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)	366,704,660,689	4,881,330
Policy loans	40,058,720	300,440
	366,744,719,409	5,181,770

DST above includes remittances of DST that were paid on behalf of the counterparty.

(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
Penalties including interest and surcharge	24,605,147
Mayor's permit	21,070,724
BIR annual registration	13,000
CTC	10,500
Others (IC Fees, Notarial Fees, PTR, etc.)	2,742,140
Total	48,441,511

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	113,334,096	7,524,222	120,858,318
Creditable withholding taxes	103,681,679	7,423,614	111,105,293
Final withholding taxes	3,791,118	105,160	3,896,278
Fringe benefit taxes	3,474,735	1,215,878	4,690,613
Withholding VAT	625,798	-	625,798
Total	224,907,426	16,268,874	241,176,300

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

(vii) *Tax assessment*

Taxable year 2021 is an open tax year as at December 31, 2022. The Company has received a Letter of Authority (LOA) for taxable year 2019 on September 17, 2021. The 2018 tax assessment was finalized and paid on November 18, 2022.

The Company has no outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside BIR as at December 31, 2022.