SGI PHILIPPINES
GENERAL INSURANCE COMPANY, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2019

MAM & Co.

M. A. MERCADO & Co.
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Report of Independent Auditors

The Board of Directors and Stockholders
SGI Philippines General Insurance Company, Inc.
15th Floor, Citibank Tower
8741 Paseo de Roxas
Makati City, Philippines

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **SGI Philippines General Insurance Company, Inc.** ("the Company"), which comprise the statement of financial position as at December 31, 2019 and 2018, and the related statements of profit, statements of comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Other Matters

The financial statements of the Company as at and for the year ended December 31, 2018, which are presented herein for comparative purposes, were audited by Teodoro Santamaria Canlas & Co. whose report thereon expressed an unmodified opinion on those statements on April 10, 2019.

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

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

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

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

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

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

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

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

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information disclosed in Note 29 of the Notes to financial statements is presented for the purpose of filing with the Bureau of Internal Revenue under Revenue Regulation No. 15-2010 and the supplementary information provided in Schedule 1 as at December 31, 2019 and for the year then ended as required by the Securities and Exchange Commission under the Securities Regulation Code (SRC) Rule are presented as additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of the management and has been subjected to the auditing procedures applied in our audit 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.

M.A. MERCADO & CO.

By: **Meriam F. Comia**
Partner
CPA License No. 074629
Tax Identification No. 102-920-894
P.T.R. No. 8130635; Issued on January 10, 2020, Makati City
SEC Accreditation No. 1533-AR-1 (Group C)
Issued January 15, 2019; Valid until January 14, 2022
IC Accreditation No. SP-2018-015-R
Issued on April 7, 2018; Valid until April 6, 2021
BIR Accreditation No. 08-006173-001-2018
Issued March 22, 2018; Valid until March 22, 2021
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued September 18, 2017; Valid until September 17, 2020
Firm's SEC Accreditation No. 0320-FR-1
Issued January 15, 2019; Valid until January 14, 2022
Firm's IC Accreditation No. F-2018-006-R
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April 30, 2020
Makati City, Philippines

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Supplemental Written Statement Accompanying
Report of Independent Auditors

The Board of Directors and Stockholders
SGI Philippines General Insurance Company, Inc.
15th Floor, Citibank Tower
8741 Paseo de Roxas
Makati City, Philippines

We have audited the financial statements of **SGI Philippines General Insurance Company, Inc.** for the year ended December 31, 2019, on which we have rendered the attached report dated April 30, 2020.

In compliance with SRC Rule 68, we are stating that the above Company has fifty two (52) stockholders, eighteen (18) of whom owning one hundred (100) or more shares each.

M.A. MERCADO & CO.

By: **Meriam F. Comia**
Partner
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April 30, 2020
Makati City, Philippines

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF FINANCIAL POSITION

	Notes	December 31	
		2019	2018
		(In Philippine Peso)	
Assets			
Cash and cash equivalents	7	**720,797,745**	122,284,354
Insurance receivables	8	**234,246,372**	301,904,701
Loss reserve withheld by ceding companies	8	**-**	390,968
Financial asset at FVPL	9	**391,232,923**	280,563,840
Financial asset at FVOCI	9	**1,411,286**	1,545,206
Financial asset at amortized cost	9	**142,672,810**	143,309,739
Property and equipment - net	10	**36,918,772**	38,873,096
Deferred acquisition cost	11	**1,377,444**	4,383,047
Deferred reinsurance premium	12	**19,032,167**	8,591,492
Deferred tax assets	25	**22,436,558**	20,673,438
Other assets	13	**11,829,780**	10,039,714
Total Assets		**1,581,955,857**	932,559,595
LIABILITIES AND EQUITY			
Liabilities			
Insurance liabilities	14	**215,434,768**	188,297,635
Accounts and other payables	15	**6,409,693**	6,110,926
Advances from stockholders	6,27	**623,831,396**	-
Retirement benefit liability	23	**2,783,068**	755,525
Deferred tax liability	25	**413,232**	1,314,913
Total liabilities		**848,872,157**	196,478,999
Equity			
Common stock	16	**710,457,200**	710,457,200
Share premium	16	**22,426,225**	22,426,225
Revaluation reserve on financial assets at FVOCI	9	**(184,140)**	(50,220)
Actuarial gains on retirement benefit liability, net	17	**185,853**	728,520
Revaluation increment in property	10	**14,995,451**	15,828,533
Retained earnings	16	**(14,339,689)**	(12,852,462)
Treasury shares	16	**(457,200)**	(457,200)
Total equity		**733,083,700**	736,080,596
Total Liabilities and Equity		**1,581,955,857**	932,559,595

See accompanying notes to financial statements.

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF PROFIT

		For the years ended December 31	
	Notes	**2019**	2018
		(In Philippine Peso)	
Revenues			
Gross premiums written	18	**49,018,304**	40,993,886
Reinsurance premium ceded	18	**(41,541,758)**	(23,320,094)
Net premiums retained		**7,476,546**	17,673,792
Decrease/ (Increase) in reserve			
for unearned premiums	18	**7,996,195**	(13,599,003)
Premiums earned		**15,472,741**	4,074,789
Commissions earned	18	**3,520,941**	3,690,208
Gross underwriting income	18	**18,993,682**	7,764,997
Underwriting deductions	19	**(20,233,459)**	(8,285,509)
Net underwriting loss		**(1,239,777)**	(520,512)
Other income	20	**28,906,867**	20,557,607
Gross profit		**27,667,090**	20,037,095
Operating Expenses			
General and administrative expenses	21	**(26,292,306)**	(22,503,418)
Interest expense	22	**-**	(26,316)
Total expense		**(26,292,306)**	(22,529,734)
Net income (loss)		**1,374,784**	(2,492,639)
Income Tax Benefit	25		
Final		**(5,294,241)**	(3,975,129)
Deferred		**7,408,820**	6,684,229
		2,114,579	2,709,100
Net profit/ (loss)		**3,489,363**	216,461
Earnings/ (Loss) Per Share	26	**1.96**	0.12

See accompanying notes to financial statements.

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the years ended December 31 **2019**	2018
		(In Philippine Peso)	
Net profit/ (loss)		**3,489,363**	216,461
Other comprehensive income that recycle to profit or loss in subsequent periods:			
Reversal/Impairment loss on financial asset at FVOCI	9	**(133,920)**	(83,700)
Other comprehensive income that do not recycle to profit or loss in subsequent periods:			
Actuarial loss on retirement benefit plan	17	**(542,667)**	-
Total comprehensive income/ (loss)		**2,812,776**	132,761

See accompanying notes to financial statements.

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.

(A Non-life Insurance Company)

STATEMENTS OF CHANGES IN EQUITY

	Common stock (Note 16)	Share premium (Note 16)	Treasury shares (Note 16)	Deposit for future subscription (Note 16)	Revaluation reserve on financial asset at FVOCI (Note 9)	Revaluation increment on property and equipments (Note 10)	Actuarial gain/(loss) on retirement benefit obligation (Note 17)	Retained Earnings (Note 16)	Total
		(In Philippine Peso)							
Balances, January 1, 2018	710,457,200	26,835,235	(457,200)	4,864,008	33,840	16,661,614	728,520	(11,972,300)	747,150,917
Total comprehensive income	-	-	-	-	(83,700)	-	-	216,461	132,761
Expired excess MCIT (Note 25)	-	-	-	-	-	-	-	(1,096,623)	(1,096,623)
Adjustments	-	(4,409,010)	-	(4,864,008)	-	-	-	-	(9,273,018)
Depreciation of property and equipment	-	-	-	-	-	(833,081)	-	-	(833,081)
Balances, December 31, 2018	710,457,200	22,426,225	(457,200)	-	(50,220)	15,828,533	728,520	(12,852,462)	736,080,956
Total comprehensive income	-	-	-	-	-	-	-	3,489,363	3,489,363
Expired excess NOLCO (Note 25)	-	-	-	-	-	-	-	(4,735,876)	(4,735,876)
Expired excess MCIT (Note 25)	-	-	-	-	-	-	-	(240,713)	(240,713)
Adjustments	-	-	-	-	(133,920)	-	(542,667)	-	(676,587)
Depreciation of property and equipment	-	-	-	-	-	(833,082)	-	-	(833,082)
Balances, December 31, 2019	**710,457,200**	**22,426,225**	**(457,200)**	**-**	**(184,140)**	**14,995,451**	**185,853**	**(14,339,689)**	**733,083,700**

See accompanying notes to financial statements.

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

STATEMENTS OF CASH FLOWS

	Notes	For the years ended December 31 2019	2018
		(In Philippine Peso)	
Cash flows from operating activities			
Income/ (Loss) before income tax		**1,374,784**	(2,492,639)
Adjustments for:			
Depreciation	21	**1,535,725**	1,457,759
(Increase)/ Decrease in deferred acquisition costs	11	**3,005,603**	(4,036,474)
(Increase)/ Decrease in reserve for unearned premiums	18	**7,996,195**	(13,599,003)
Reversal of allowance on impairment losses			
Fair value adjustment on financial assets at FVOCI	9	**433,723**	(67,222)
Interest income	20	**(26,064,850)**	(19,715,762)
Retirement benefit expense/ (income)	21, 23	**1,252,304**	318,274
Operating loss before working capital changes		**(10,466,516)**	(38,135,067)
Decrease in insurance receivables	8	**67,658,329**	23,158,890
Decrease in loss reserve withheld by ceding companies	8	**390,968**	3,759,080
Increase in other assets	13	**(1,790,066)**	(620,432)
Decerase in insurance contract liabilities	14	**8,700,263**	(18,397,963)
Increase/ (Decrease) in accounts and other payables	15	**298,767**	829,956
Increase in advances from stockholders	6,27	**623,831,396**	-
Net cash generated by/ (used in) operations		**688,623,140**	(29,405,536)
Income taxes paid	25	**(5,294,241)**	(4,171,361)
Net cash provided by/ (used in) operating activities		**683,328,899**	(33,576,897)
Cash flows from investing activities			
Acquisition of government bonds	9	**(110,465,877)**	(99,449,493)
Acquisition of property and equipment	10	**(414,482)**	(1,256,106)
Decrease in capital stock/ share premium	16	**-**	(4,409,010)
Decrease in deposit for future subscription	16	-	(4,864,008)
Interest income earned	20	**26,064,850**	19,715,762
Net cash provided by/ (used in) investing activities		**(84,815,508)**	(90,262,855)
Net increase/ (decrease) in cash and cash equivalents		**598,513,391**	(123,839,752)
Prior period adjustment		-	-
Cash and cash equivalents, January 1	7	**122,284,354**	246,124,106
Cash and cash equivalents, December 31	7	**720,797,745**	122,284,354

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 2019
(Amounts in Philippine Peso Unless Otherwise Stated)

1. Corporate information

SGI Philippines General Insurance Company, Inc. (the Company) is a domestic corporation which was incorporated in the Philippines on April 2, 1964.

The company is engaged in the business of nonlife insurance indemnifying any person against loss, damage, or liability arising from unknown or contingent events. Its current lines include all kinds of insurance (except life), reinsurance, insurance on buildings, automobiles, cars, and other motor vehicles goods and merchandise, goods in transit, goods in storage, fire insurance, earthquake, insurance against accident, and all other forms of undertakings.

As at December 31, 2019, the Company's total paid-up capital is 75.9% owned by Shriram General Insurance Co. Ltd., a corporation organized under the laws of India. The ownership of the rest of the stockholders ranges from less than 1% to 5.97%.

The registered office and principal address of the Company is at 15th Floor, Citibank Tower, 8741 Paseo De Roxas, Makati City, Philippines.

2. Summary of significant accounting policies

Statement of compliance
The accompanying financial statements were prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), Interpretation of the Philippine Interpretations Committee (PIC), Standing Interpretation Committee (SIC), and International Financial Reporting Standards Interpretations Committee (IFRS IC) which have been adopted by the Financial Reporting Standards Council (FRSC) and approved by the Board of Accountancy (BOA) and the SEC.

Basis of preparation
The accompanying financial statements have been prepared on a historical cost convention method, as modified for financial assets at FVPL, financial assets at FVOCI and financial assets at amortized cost. The preparation of the financial statements in accordance with PFRS requires the use of critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed in Note 3.

Functional and presentation currency
These financial statements are presented in Philippine Peso, the Company's functional currency and all values are rounded to the nearest Peso, except when otherwise indicated.

Adoption of new or revised standards, amendments to standards and interpretations
The Company adopted for the first time the following new PFRS, amendments to PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019. Except as otherwise indicated, the adoption of

these new standards and amendments to standards did not have any significant effect or impact on the Company's financial statements.

- PAS 19 (Amendments), Employee Benefits – Plan Amendment, Curtailment or Settlement (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

- PAS 28 (Amendments), Investment in Associates – Long-term Interest in Associates and Joint Venture (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

- PFRS 9 (Amendments), Financial Instruments – Prepayment Features with Negative Compensation (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the solely for payment of principal and interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. Management initially assessed that these amendments will not affect the Company's financial statements since it has no financial instruments having prepayment features with negative compensation.

- PFRS 16, Leases (effective from January 1, 2019). The new standard replaces PAS 17, Leases. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization.

  The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit). For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

- IFRIC 23, Uncertainty over Income Tax Treatments (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

- Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements:

  - PAS 12 (Amendments), Income Taxes – Tax Consequences of Dividends. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

  - PAS 23 (Amendments), Borrowing Costs – Eligibility for Capitalization. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

  - PFRS 3 (Amendments), Business Combinations, and PFRS 11 (Amendments), Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Company obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Company obtains joint control of the business..

<u>Future adoption of new standards and amendments to standards</u>
There are new PFRS, interpretation, annual improvements to PFRS and amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, management is currently assessing the impact on the Company's financial statements:

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, Definition of a Business – The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, Presentation of financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of material – The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

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

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

  The Insurance Commission has issued Circular Letter No. 2018-69 which defers the implementation of IFRS 17 for Life lnsurance and Non Life lnsurance industries to January 1, 2023, granting an additional period from the date of effectivity proposed by the IASB.

  It is anticipated that the amendments will have a significant impact on many aspects of an insurer's financial reporting and operational processes. The Company is already studying the impact of the amendments to its financial statements.

Deferred effectivity

- Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

The Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

<u>IC Circular Letter (ICL) No. 2016-67</u>
On December 28, 2016 the IC issued IC Circular Letter (ICL) No. 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves,* which supersedes Circular Letter No. 2015-32. The following are the more significant provisions of this Circular:

A non-life insurance company shall maintain reserves for its written policies, which shall be charged as a liability in any determination of its financial condition, as required by the IC, in accordance to Sections 219 and 220 of the New Insurance Code (RA 10607), as well as this Valuation Standards for Life Insurance Policy Reserves.

Claims Liabilities

a. Claims liabilities for both direct business and assumed treaty and facultative reinsurance business shall be calculated as the sum of outstanding claims reserve, claims handling expense and IBNR, with MfAD.
b. Outstanding claims reserve shall be based on actual claims reported but have not been settled as of valuation date. The company shall ensure integrity of the data inputs as well as minimize uncertainties in the claims processing.
c. The IBNR shall be calculated based on standard actuarial projection techniques or combinations of such techniques, such as but not limited to the chain ladder approach, the expected loss ratio approach, and the Bornhuetter-Ferguson (BF) method. The Actuary shall determine the appropriateness of the methodology considering the characteristics of the data, such as maturity of the business.
d. The Claims liabilities shall include a provision for Claims handling expenses, which covers the estimated expenses of settling all claims, both reported and unreported, outstanding as of valuation date.
e. The Actuary shall ensure the reliability of the expected loss ratio by obtaining estimates from various sources, such as underwriters, the business plan, pricing actuaries, market statistics, or from a historic view of profitability and loss ratios.
f. In valuing Claims liabilities, the Actuary should consider other factors such as but not limited to: varying expense structure in run-off situations, large losses arising from significant past events, operational changes in claims management, underwriting changes such as business mix and premium rate changes, changes in reinsurance program and changes in claims handling process, and external conditions.
g. To ensure sufficiency of reserves, the Actuary shall conduct a back-testing exercise of the IBNR by comparing the previous year's IBNR of expected current year claim developments, with actual current year claim developments. In cases where the IBNR has proven insufficient to cover actual claims development, the Actuary shall revisit the assumptions for IBNR valuation and document the rationale for this deterioration.

<u>IC Circular Letter (ICL) No. 2016-69</u>
On December 28, 2016 the IC issued IC Circular Letter (ICL) No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves, and Amended Risk-Based Capital (RBC2) Framework.*

The following are the more significant provisions of this Circular:

1. Financial Reporting Framework (FRF): CL No. 2016-65.
2. Valuation Standards for Life Insurance Policy Reserves: CL No. 2016-66
3. Valuation Standards for Non-Life Insurance Policy Reserves: CL No. 2016-67.

For the initial year of implementation, the requirements will be the relaxed as follows:

Premiums Liabilities

For 2017, companies shall be allowed to set up as Premium Liabilities the Unearned Premium Reserves (UPR) instead of the higher of the UPR and Unexpired Risk Reserve (URR), determined in accordance with Section7.2 of the Circular Letter No. 2016-67.

Starting 2018, the Premium Liabilities shall be determined in accordance with the valuation standards prescribed under the Circular Letter No. 2016-67.

Claims Liabilities

Claims Liabilities shall be determined in accordance with the valuation standards prescribed under Section 8 of CL No. 2016-67.

For 2017, the companies shall be allowed to set the Margin for Adverse Deviation (MfAD) to zero (0).

<u>IC Circular Letter (ICL) No. 2018-19</u>
On March 9, 2018 the IC issued IC Circular Letter (ICL) No. 2018-19, *Amendment to Circular Letter No. 2016-69 "Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves, and Amended Risk-Based Capital (RBC2) Framework."*

The following are the more significant provisions of this Circular:

Margin for Adverse Deviation

MfAD shall be company-specific. The companies shall submit to the IC the documents and certification signed by an IC-accredited actuary to support the computation of their MfAD.

Companies shall be allowed to set the MfAD as follows:

Period Covered	Percentage (%) of company-specific MfAD
2017	0%
2018	50%
2019 onwards	100%

This amendatory circular shall take effect immediately. Except as amended hereby, all other provisions of CL No. 2016-69 shall remain effective.

The above ICLs become effective on January 1, 2017. The Company assesses the effect of this circular and has made disclosures in the notes to the financial statement based on its parallel run as of December 31, 2019 and 2018.

Significant accounting policies

Cash and cash equivalents
Cash includes cash on hand and with 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 acquisition and that are subject to an insignificant risk of changes in value.

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

Financial instruments
Date of recognition
Financial instruments are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of the instrument. All regular way of purchases or sales of financial assets are recognized on the trade date, which is the date the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Company has no financial liabilities at FVPL or derivatives for the years ended December 31, 2019 and 2018.

Classification, measurement and reclassification of financial assets in accordance with PFRS 9
Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below and in the succeeding pages.

Financial assets at amortized cost
Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("held to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Where the business model is to hold assets to collect contractual cash flows, the Company assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Loans and Other receivables, Investment securities at amortized cost and certain accounts under Other Assets account in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, and investment securities at amortized cost with original maturities of three months or less from placement date.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of income as part of Interest Income.

Financial assets at fair value through other comprehensive income
The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Company for trading or as mandatorily required to be classified as FVPL. The Company has designated equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the equity account is not reclassified to profit or loss but is reclassified directly to Retained Earnings account except for those debt securities classified as FVOCI wherein fair value changes are recycled back to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the Company's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Company, and, the amount of dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

Financial assets at fair value through profit or loss
Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVPL. Also, equity securities are classified as financial assets at FVPL, unless the Company designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Company's financial assets at FVPL include equity securities which are held for trading purposes or designated as at FVPL. Financial assets at FVPL are measured at fair value with gains or losses recognized in profit or loss as part of Trading Gain – net under Other Operating Income in the statements of income. Related transaction costs are recognized directly as expense in profit or loss. The fair values of these financial assets are determined

by reference to active market transactions or using valuation technique when no active market exists. Interest earned on these investments is recorded as Interest Income and dividend income is reported as part of Dividends both under Other Income account in the statements of income. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI. The Company can only reclassify financial assets if the objective of its business model for managing those financial assets changes.

Accordingly, the Company is required to reclassify financial assets:
(i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and,
(ii) from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Company's business model will take effect only at the beginning of the next reporting period following the change in the business model.

Effective interest rate method and interest income
Under PFRS 9, interest income is recognized using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI are recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. The Company recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges). If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statements of income. The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Impairment of financial assets under PFRS 9
From January 1, 2019, the Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost, debt instruments measured at FVOCI and other contingent accounts. No impairment loss is recognized on equity investments. Recognition of credit losses or impairment is no longer dependent on the Company's identification of a credit loss event. Instead, the Company considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets. The Company measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for impairment is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

Measurement of ECL The key elements used in the calculation of ECL are as follows:

- Probability of Default (PD) – it is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- Loss Given Default (LGD) – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those the Company would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.
- Exposure at Default (EAD) – it represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the Group expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Company shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(ii) the time value of money; and,
(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

<u>Derecognition of financial assets</u>
The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Other financial receivables

Other financial receivables include "Insurance receivables" which are recorded when due and measured at the original invoice amount then subsequently carried at amortized cost less allowance from any uncollectible amount. The carrying value of insurance receivables is reviewed from impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in the Statement of comprehensive income.

Impairment of financial assets at amortized cost

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. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Impairment of insurance receivable

A provision for impairment is made when there is objective evidence (such as probability of insolvency or significant financial difficulties of the debtor) that the company will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

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 assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

Other financial liabilities
Issued financial instruments or their components, which are not classified as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder or lender, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. The amortization is included as part of interest expense in the statements of comprehensive income. Any effect of restatement of foreign currency-denominated liabilities is recognized in foreign exchange gains/ (losses) account in the statements of comprehensive income.

As at December 31, 2019 and 2018, the Company's other financial liabilities include insurance liabilities and accounts and other payables. Other financial liabilities as at December 31, 2019 also include advances from stockholders which pertain to deposit for future subscriptions as detailed in Notes 6, 16 and 27.

Derecognition of financial liabilities
Financial liabilities are derecognized in the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

Derivative financial instruments
Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognizes profit or loss at initial recognition. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognized as profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable. The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks as well as other factors.

Financial assets are no longer bifurcated; instead, the whole instrument (including the host contract) is measured at FVPL. Certain derivatives, if any, may be designated as either:
(i) hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or,
(ii) hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge).

Changes in the fair value of derivatives are recognized in profit or loss. The method of recognizing the resulting fair value gain or loss on derivatives that qualify as hedging instrument, if any, depends on the hedging relationship designated by the Company.

As of December 31, 2019 and 2018, the Company has no derivative financial instruments.

Offsetting financial instruments
Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

Product classification
Insurance contracts are those contracts where the Company (the insurer) has accepted 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

policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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

Insurance and investment contracts are further classified as being with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed contracts, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realized and or unrealized investment returns on a specified pool of assets held by the issuer, or the profit or loss of the company, fund or other entity that issues the contract.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF or when the host insurance contract and/or investment contract with DPF itself is measured at FVPL. The options and guarantees within the insurance contracts issued by the Company are treated as derivative financial instruments are clearly and 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 payments on the contract to units of an interval investment fiend meets the definition of an insurance contract and is therefore not accounted separately from the host insurance contract.

<u>Insurance contract</u>
Non-Life insurance contract liabilities. Non-life insurance contract are recognized when the contracts are entered into and the premiums are recognized. The reserve for Non-life insurance contracts is calculated on the basis of a prudent prospective actuarial valuation method where he assumptions used depend on the circumstances prevailing in each life operation. Assumptions and actuarial valuation methods are also subject to provisions of the Insurance Code (the Code) and guidelines set by the Insurance Commission.

Insurance contracts with fixed and guaranteed terms. The liability is determined as the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used. The ability is based on mortality, morbidity and investment income assumptions that are established at the time the contract is issued. The Company has different assumptions for different products. However, liabilities for contractual benefits are computed to comply with statutory requirements, which require discount rates to be not more than 6% compound interest and mortality and morbidity rates to be in accordance with the standard table of mortality and morbidity. Reserves are computed per thousand of sum insured and depend on the issue age and policy duration. The net change in legal policy reserves during the year is taken to profit or loss. This is not applicable to the Company.

<u>Contract classification</u>
The company issues short-term insurance contracts categorized as:

Casualty insurance contracts protect the assured against the risk of causing them harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events.

Property insurance contracts mainly compensate the Company's assured for damages suffered to their properties or for the value of property lost.
Short-duration accident insurance protects the assured from the consequences of events such as death or disability.

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

<u>Deferred acquisition costs</u>
Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts such as commissions, certain underwriting and policy issue costs and inspection fees, are deferred and charged to expense in proportion to premium revenue recognized.

<u>Claim cost recognition</u>
Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur.

The liabilities for unpaid claims (including those for incurred but not reported) are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in the Statement of comprehensive income and expenses in the period the recoveries are determined. Recoverable amounts are presented as part of Reinsurance assets.

Estimated recoveries on settled and unsettled claims are evaluated in terms of the estimated realizable values of the salvage recoverable and deducted from the liability for unpaid claims.

<u>Liability adequacy test</u>
At each reporting date, liability adequacy test are performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of all contractual cash flows, claims and claims handling cost. If the test shows that the liability is inadequate, the entire deficiency is recognized in the statement of comprehensive income.

<u>Reinsurance</u>
The Company utilizes reinsurance agreements to minimize its exposure to large losses in all aspects of its insurance business. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Company as direct insurer of the risks reinsured.

Amounts recoverable from insurers that relate to paid and unpaid claims and claim adjustment expenses are classified as assets. Reinsurance receivables and the related liabilities are reported separately.

Reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs.

An impairment review is performed at each reporting period or more frequently when indication of impairment arises during the 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 receives from the reinsurer can be measured reliably. The impairment loss is recorded is charged to profit or loss.

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

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

Property and equipment

Property and equipment, including owner-occupied properties, are computed at cost less accumulated depreciation, amortization and accumulated impairment in value. Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Office premises and improvements	40 years
Furnitures and office equipment	10 years
Transportation and computer equipment	5 years

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to operations as incurred. Leasehold improvements are amortized over estimated useful life of the improvements or the term of the relate lease, whichever is shorter. When assets are sold, retired or otherwise disposed of, their cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss charged to current operations.

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at each reporting period.

Derecognition of property and equipment

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Statement of comprehensive income in the year the item is derecognized. This is not applicable to items that still have useful lives but are currently classified as idle. Depreciation continues for those items until fully depreciated or disposed.

Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists (or when annual impairment testing for an asset is required), the Company estimates the recoverable amount of the impaired assets. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use is the present value of future cash flows expected to be derived from an asset while fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less cost of disposal. Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An impairment loss is charged to profit or loss in the period when it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged directly to the revaluation increment of the said asset.

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 net 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 net recoverable amount. The reversal can be made only to the extent that the resulting carrying value does not exceed the carrying value that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation 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.

<u>Related party relationships and transactions</u>
Parties are considered to be related if one party has the ability to control or exercise significant influence over the party in making financial and operating decisions. This includes: (1) individual owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Company; (2) associates; (3) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

Transactions between related parties are accounted for at arms' length prices or on terms similar to those offered to non-related entities in an economically comparable market.

<u>Equity</u>
Capital stock is determined using the nominal value of shares that have been issued.
Share premium represents the excess of consideration received when the Company issues shares over its par. Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC.

Treasury shares are portion of shares that a company keeps in their own treasury. Treasury stock may have come from a repurchase or buyback from shareholders; or it may have never been issued to the public in the first place. These shares don't pay dividends, have no voting rights, and should not be included in shares outstanding calculations.

Revaluation reserve on financial assets at FVOCI comprise of gains and losses due changes in fair value of financial assets at FVOCI.

Revaluation increment in property and equipment results from appraisal of property and equipment reduced by depreciation on the appraisal increment.

Retained earnings/ (deficit) include all current and prior period results as disclosed in the Statement of comprehensive income.

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 criteria must also be met before revenue is recognized:

- Premiums are recognized as revenue from short duration insurance contracts over the period of the contracts using the 24^{th} method, except for marine cargo insurance contracts. The gross premiums written for marine cargo insurance policies for the first ten months of the year and the last two months of the preceding year are recognized as premium income in the current year. The portion of the premiums written that relate to the unexpired periods of the policies at Reporting periods and the last two months of marine cargo policies are accounted for as reserve for unearned premiums and presented in the liabilities section of the Statement of financial position, under "Reserve for unearned premiums". The related reinsurance premiums that pertain to the unexpired periods accounted as for as deferred reinsurance premiums shown in the Statement of financial position. The net changes in these accounts between Reporting period are charged to or credited against income for the year;

- Commissions income are recognized as revenue from short duration insurance contracts over the period of the contracts using the 24^{th} method, except for marine cargo insurance contracts where the deferred portion pertains to the commissions for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the reporting period is accounted for as "Deferred reinsurance commissions" and presented in the liabilities section of the statement of financial position.

- Dividend income is recognized when the right to receive dividends is established;

- Interest income is recognized as the interest accrues (taking into account the effective yield on the interest);

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for the services provided, excluding value added tax (VAT).

Expense recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease equity, other than those relating to distributions to equity participants. Expenses are recognized when the related revenue is earned or when the service is incurred.

Leases
Policy applicable upon adoption of PFRS 16
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in PFRS 16. This policy is applied to contracts entered into on or after January 1, 2019.

Short-term leases and leases of low-value assets
The Company has elected not to recognize right-of-use assets and liabilities for leases of low-value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before January 1, 2019
For contracts entered into before January 1, 2019, the Company determined whether the arrangement was, or contained, a lease based on the following assessment:

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

Where a reassessment is made, lease accounting shall commence or cease from the date of the change in circumstances that gave rise the reassessment for scenarios (a), (c) and (d) above and at the date of renewal or extension period for scenario (b).

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

<u>Retirement benefit costs</u>
Retirement benefits liability, as presented in the statement of financial position, is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, if any, adjusted for the effect of limiting a net defined 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 defined benefit plan is actuarially determined using the projected unit credit method. The retirement benefit costs comprise of the service cost, net interest on the net defined liability or asset and the remeasurements of net defined liability or assets.

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

Net interest on the net defined 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 liability or asset. Net interest on the net defined 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 liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods.

Income taxes

Current tax assets or liabilities comprise those claims from, or obligation to, taxation authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the calendar periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the Statement of comprehensive income.

Deferred tax is provided, using the balance sheet liability method on all temporary differences at the balance reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused net operating loss carry over (NOLCO) and unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax, if there are any, to the extent that it is probable that taxable profit will be available against deductible temporary differences.

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

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

Under the present Revenue Code, MCIT of two percent (2%) of the gross income as of the end of the taxable year is hereby imposed on a corporation beginning on the fourth year immediately following the year in which such corporation commenced its business operations, when the income tax computed based on MCIT is greater than the tax computed as normal tax under Subsection (A) of Section 27 of the Code, for the taxable year.

Under current tax laws, corporations subject to income tax are required to file quarterly returns and pay the corresponding amount of tax. Certain forms of income received by the Company such as earnings from bank deposits, interest and others have been subjected to withholding tax at various rates specified by law and remitted by payors for the account of the Company. An adjustment return is filed at the end of the taxable year at which time the balance, if any, shall be paid.

Earnings per share

Earnings per share is computed by dividing net profit by the weighted average number of shares subscribed and issued and outstanding at the end of the year.

Provisions and contingencies

Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required if settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each reporting period and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements, however, they are disclosed if material. In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

Events after the reporting period
Events after the reporting period that provide additional information about the Company's financial position at the reporting period (adjusting events) are reflected in the financial statements. Post year-end events are disclosed in the notes when material.

3. Significant accounting judgments and estimates

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. 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 circumstances. Actual results may ultimately differ from these estimates.

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

Determination of 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 pesos, which is the Company's functional and presentation currency.

Determination of operating lease
Company as a lessee – The Company entered into a lease agreement with a term of one (1) year and renewable upon mutual terms by the parties.

Rental expense amounted to P1,638,199 in 2019 and P1,385,113 in 2018 (Please see Note 21).

Categories of financial instruments

The company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument based on the substance of the contractual arrangement and the definitions of financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification at initial recognition and re-evaluates this designation at every financial reporting date (Please see Note 5).

Impairment of financial assets

The Company determines when an investment is other-than-temporarily impaired. This determination requires significant judgment. 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 costs; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Provisions and contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2 – Provisions.

Estimates

The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances of the Company's financial statements. Actual results could differ from those estimates. The following are the relevant estimates performed by Management on its December 31, 2019 and 2018 financial statements:

Valuation of financial instruments

The Company carries certain financial instruments at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence from observable active markets and other valuation techniques including the use of mathematical models. However, the amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

Management valuation methods and assumptions in determining the fair value of the Company's financial instrument are discussed in Note 5.

Allowance for impairment losses of receivables

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

Allowance for impairment losses amounted P3,745,805 in both 2019 and 2018. (Note 8)

Useful life of property and equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

Property and equipment, net of accumulated depreciation, amounted to P36,918,772 in 2019 and P38,873,096 in 2018 (Please see Note 10).

<u>Impairment of non-financial assets</u>
PFRS requires that an impairment review be performed when certain impairment indicators are present. The Company's policy on estimating the impairment of non-financial asset is discussed in detail in Note 2 – Impairment of non-financial assets. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations. Based on Management's assessment, there is no impairment loss on non-financial assets needed to be recognized in 2019 and 2018.

<u>Realizable amount of deferred income tax assets</u>
The Company reviews its deferred income tax assets at each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets amounted to P22,436,558 and P20,673,438 in 2019 and 2018, respectively (Please see Note 25).

<u>Liability for insurance claims</u>
Estimates have been made both of expected ultimate cost of claims reported at the reporting period and for the expected ultimate cost of the claims incurred but not yet reported at the reporting period. It can take significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, unreported claims significantly comprise the claims payable presented in the Statement of financial position. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to the Statement of comprehensive income at a non-discounted amount for the time value of money.

Insurance claims payable as of December 31, 2019 and 2018 amounted to P145,494,664 and P124,393,151 respectively. (Please see Note 14).

<u>Employee retirement benefits</u>
The determination of the Company's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by an actuary in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expenses and recorded obligation in such future periods.

The estimated retirement benefits obligation amounted to P2,783,068 in 2019 and P755,525 in 2018. The accumulated actuarial gain, net of tax, amounted to P185,853 in 2019 and

P728,520 in 2018. Retirement benefit expense amounted to P1,252,304 in 2019 and P318,274 in 2018. (Note 23)

4. Risk management objectives and policies

The Company is exposed to a variety of financial risk in relation to its financial instruments. The Company's financial assets and liabilities by category are summarized in Note 5. The main types of risks are insurance risk, market, credit and liquidity.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write option. The most significant financial risks to which the Company is exposed to are described as follows.

Insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under the insurance contracts is that actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency of the severity of claims and benefits are greater than estimated.

Insurance events are random and then the actual number of the amount of claims and benefits will vary from year to year from the estimated established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in the subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Apart from the Company's risk management function, regulators also apply a vital role in the insurance industry in ensuring that policyholders and creditors are assured of any claims that may arise within the term of the policy. The Insurance Commission (IC) imposes:

- Risk-based capital framework that will effectively manage the equity requirement of the Company
- Margin of solvency which requires an appropriate ratio of admitted assets over admitted liabilities
- A mandatory reserve of highly-liquid debt instruments to answer the claims of policyholders and creditors
- And minimum statutory net worth to streamline the operation of insurance industry.

Internally, the Company manages its risks through underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured events. Other reinsurance facility entered includes surplus treaties, catastrophe cover and facultative reinsurance.

The concentration of insurance claims as of December 31, 2019 and 2018 are as follows:

2019				
	Gross	RI Recoverable	Net Liability	%
Fire	131,462,136	97,670,391	33,791,745	79%
Engineering	6,159,744	3,869,619	2,290,125	5%
Bonds	5,000,000	-	5,000,000	12%
Motor Car	1,988,946	345,013	1,643,933	4%
Marine	851,000	690,625	160,375	0%
PA	26,530	3,865	22,665	0%
Miscellaneous	6,308	-	6,308	0%
	145,494,664	102,579,513	42,915,151	100%

2018				
	Gross	RI Recoverable	Net Liability	%
Fire	84,833,861	64,690,522	20,143,339	51%
Engineering	29,648,953	19,639,152	10,009,801	25%
Bonds	5,000,000	-	5,000,000	13%
Motor Car	4,004,008	96,776	3,907,232	10%
Marine	851,000	690,625	160,375	0%
PA	20,458	5,525	14,933	0%
Miscellaneous	34,871	3,076	31,795	0%
	124,393,151	85,125,676	39,267,475	100%

Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets may not be 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.

The risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

Market risk

The Company is exposed to market risk through its use of financial instruments and specifically to interest rate risk which result from both operating and financing activities.

Interest rate risk

Interest rate risk is the risk to future earnings or equity arising from the movement of interest rates. Changes in interest rates affect (1) the Company's earnings by changing its net interest income and the level of other interest rate-sensitive income and operating expenses; and (2) the underlying economic value of the Company's assets, liabilities and off-balance sheet instruments by means of reducing the present value of future cash flows (and in some cases, the cash flows themselves). The Company exposure to changes in market interest rates is only through the “Cash in bank”, “Cash equivalents” and “Government bonds”, which is subject to variable interest rates.

The following table demonstrates sensitivity of the Company’s profit before tax and equity to reasonable possible changes in interest rate of +10/-10 and +100/-100 basis points of the Company’s cash in banks and notes payable, respectively, on December 31, 2019 and December 31, 2018. These changes are considered to be reasonably possible based on observation of current market conditions. All other variables are held constant.

	Change in	Effect on		Change in	Effect on	
	basis points	Net results	Equity	basis points	Net results	Equity
2019						
Financial assets						
Cash and						
cash equivalents	+10	2,198,766	1,759,013	-10	(2,198,766)	2,506,490
Government bonds	+100	45,489,768	36,391,815	-100	(45,489,768)	(36,391,815)
		47,688,534	38,150,828		(47,688,534)	(33,885,325)
2018						
Financial assets						
Cash and						
cash equivalents	+10	2,291,394	1,833,115	-10	(2,291,394)	(1,833,115)
Government bonds	+100	32,429,133	25,943,306	-100	(32,429,133)	(25,943,306)
		34,720,527	27,776,421		(34,720,527)	(27,776,421)

Foreign currency risks
The Company has no significant exposure to foreign currency risk as most transactions are denominated in Philippine Peso, its functional currency.

Credit risks
Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligation, as and when they fall due.
Credit risk limit is also used to manage credit exposure which specifies exposure credit limit for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

Key areas where the Company is exposed to credit risk are:

- Reinsurer’s share of insurance premiums.
- Amounts due from reinsurer’s in respect of claims already paid.
- Amounts due from insurance contract holders, and insurance intermediaries.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual or more frequent review.

Limits on the level of credit risk by category and territory are approved quarterly by the reinsurance department. Reinsurance is used to manage insurance risk. This does not however, discharge the Company’s liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to policyholder.

The credit worthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

The table below shows the credit quality of financial assets as at December 31, 2019 and December 31, 2018:

2019	High Grade	Standard Grade	Low Grade	Gross impaired	Allowance for impairment	Total
Cash and cash equivalents	720,797,745	-	-	-	-	720,797,745
Insurance receivable	115,008,080	9,570,168	109,668,124	3,745,805	(3,745,805)	234,246,372
Loss reserve withheld by ceding companies	-	-	-	-	-	-
Financial asset at FVPL	391,232,923	-	-	-	-	391,232,923
Financial asset at OCI	-	-	1,411,286	-	-	1,411,286
Financial asset at amortized cost	142,672,810	-	-	-	-	142,672,810
	1,369,711,558	9,570,168	111,079,410	3,745,805	(3,745,805)	1,490,361,136

2018	High Grade	Standard Grade	Low Grade	Gross impaired	Allowance for impairment	Total
Cash and cash equivalents	122,284,354	-	-	-	-	122,284,354
Insurance receivable	181,057,689	9,531,361	111,315,651	3,745,805	(3,745,805)	301,904,701
Loss reserve withheld by ceding companies	390,968	-	-	-	-	390,968
Financial asset at FVPL	280,563,840	-	-	-	-	280,563,840
Financial asset at OCI	-	-	1,545,206	-	-	1,545,206
at amortized cost	143,309,739	-	-	-	-	143,309,739
	727,606,590	9,531,361	112,860,857	3,745,805	(3,745,805)	849,998,808

High grade receivables pertain to receivables with high collectivity, standard and low grade receivables consists of receivable with delay in payments. High grade Financial Asset at FVPL and Financial Asset at amortized cost consist of government bonds and investment in quoted equities and low grade Financial Asset at OCI consists of investment in unquoted equity shares.

As of December 31, 2019 and December 31, 2018, the carrying amount of insurance receivables represents the maximum credit exposures, which is aged as follo

	Premium due and uncollected	Reinsurance recoverable on losses	Due from ceding companies and reinsurer	Total
2019				
Current	1,480,271	111,772,058	1,755,751	115,008,080
30 days past due not over 90 days	1,987,011	-	2,665,779	4,652,790
90 days past due not over 120 days	1,068,032	-	3,849,347	4,917,379
Over 120 days	66,418,851	-	43,249,272	109,668,123
Total	70,954,165	111,772,058	51,520,149	234,246,372

	Premium due and uncollected	Reinsurance recoverable on losses	Due from ceding companies and reinsurer	Total
2018				
Current	574,419	177,911,890	2,571,380	181,057,689
30 days past due not over 90 days	925,014	-	3,027,278	3,952,292
90 days past due not over 120 days	463,910	-	5,115,159	5,579,069
Over 120 days	67,636,953	-	43,678,698	111,315,651
Total	69,600,296	177,911,890	54,392,515	301,904,701

Liquidity risks
Liquidity risks or funding risks are the risks that the Company will encounter in raising funds to meet its commitments and obligations. Liquidity risks may result from difficulty in collections or inability to generate cash inflows as anticipated.

The Company's objective in managing its profile is:

- to ensure that adequate funding is available at all times;
- to meet commitments as they arise without incurring unnecessary cost;
- to be able to access funding when needed at the least possible cost;
- to regularly monitor and evaluate its projected cash flow

The Company's financial liabilities have contractual maturities with one (1) year as follows:

	2019	2018
Insurance liabilities	**215,434,768**	188,297,635
Accounts and other payables	**6,409,693**	6,110,926
	221,844,461	194,408,561

5. Categories of fair values of financial assets and liabilities

Comparison of carrying values and fair values
The carrying values and fair values of the categories of financial assets and liabilities presented in the statements of financial position are shown below:

	2019		2018	
	Carrying values	**Fair values**	Carrying values	Fair values
Financial assets				
Loans and receivables				
Cash and cash equivalents	**720,797,745**	**720,797,745**	122,284,354	122,284,354
Other assets	**11,829,780**	**11,829,780**	10,039,714	10,039,714
Financial asset at FVPL	**391,232,923**	**391,232,923**	280,563,840	280,563,840
Financial asset at FVOCI	**1,411,286**	**1,411,286**	1,545,206	1,545,206
Financial asset at amortized cost	**142,672,810**	**142,672,810**	143,309,739	143,309,739
Other financial asset				
Insurance receivable	**234,246,372**	**234,246,372**	301,904,701	301,904,701
Loss reserve withheld by ceding companies	-	-	390,968	390,968
	1,502,190,916	**1,502,190,916**	860,038,522	860,038,522
Other financial liabilities				
Insurance liabilities	**215,434,768**	**215,434,768**	188,297,635	188,297,635
Accounts and other payables	**6,409,693**	**6,409,693**	6,110,926	6,110,926
	221,844,461	**221,844,461**	194,408,561	194,408,561

Because of their short period, management considers the carrying amounts recognized in the statement of financial position to be reasonable estimates of the fair values of cash and cash equivalents, insurance receivables, other assets, insurance liabilities and accounts and other payables.

The fair values of financial asset at FVPL financial asset at amortized cost are based on the quoted market price in the PSE for quoted shares while the unquoted shares are carried at carrying amount which approximate its fair value as at December 31, 2019 and December 31, 2018.

Fair value hierarchy measurement

The table below presents the hierarchy of fair value measurements used by the Company:

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Financial Asset at FVPL	**-**	**391,232,923**	**-**	**391,232,923**
Financial Asset at OCI	**-**	**-**	**1,411,286**	**1,411,286**
Financial Asset at amortized cost	**-**	**142,672,810**	**-**	**142,672,810**
December 31, 2018				
Financial Asset at FVPL	-	280,563,840	-	280,563,840
Financial Asset at OCI	-	-	1,545,206	1,545,206
Financial Asset at amortized cost		143,309,739		143,309,739

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (e.g. as prices) or indirectly (e.g. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable input).

There were no transfers of financial instruments between level 1, 2 and 3 during 2019 and 2018.

6. Capital management objectives, policies and procedures

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities.

Required minimum net worth
Externally imposed capital requirements are set and regulated by the Insurance Commission (IC). The requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximize shareholders value.

On August 15, 2013, the IC approved the amendment of Republic Act No. 10607 known as "The Insurance Code" and was issued on August 22, 2013. The amended Insurance Code provides the required minimum Net Worth for non-life insurance companies doing business in the Philippines.

The required minimum Net Worth is as follows:

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

At the meetings held on September 4, 2018 and December 26, 2019, the Corporation's Board of Directors by majority vote and the stockholders' affirmative vote of at least two thirds (2/3) of the outstanding capital stock, respectively, approved the increase in capital stock of the Corporation from Eight Hundred Million Pesos (P800,000,000.00) divided into Two Million (2,000,000) shares with a par value of Four Hundred Pesos (P400) per share to One Billion Four Hundred Fifty Million Pesos (P1,450,000,000.00) divided into Three Million Six Hundred Twenty Five Thousand (3,625,000) shares with a par value of Four Hundred Pesos (P400) per share.

The deposit for the increase in capital stock, received from Shriram General Insurance Company Limited was made through cash amounting to Philippine Peso Six Hundred Twenty-Three Million Eight Hundred Thirty-One Thousand Three Hundred and Ninety-Five and Cents Eighty-Nine only(P623,831,395.89) and was received on December 16, 2019.

The transaction was recognized as a liability in the statement of financial position under the account Advances from Stockholders. The amount was not treated as part of equity since the SEC in its Financial Reporting Bulletin (FRB) No. 6-2012, as amended, has detailed specific requirements for deposits for future subscriptions to be treated as equity. According to the FRB:

"…an entity shall classify a contract to deliver its own equity instruments under equity as a separate account (e.g., Deposit for Future Stock Subscription) from "Outstanding Capital Stock" if and only if, all of the following elements are present as of end of the reporting period:

"1) The unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;
2) There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
3) There is stockholders' approval of said proposed increase; and
4) The application for the approval of the proposed increase has been presented for filing or has been filed with the Commission."

Since the proposed increase has not yet been presented for filing or has been filed with the SEC as of December 31, 2019, the cash infusion from the stockholders has not qualified as an account under equity, and has been classified as a liability.

The Company, in its letter dated January 10, 2020, informed the IC about the increase in Authorized Capital Stock. On February 11, 2020, the Company received a letter, dated January 24, 2020, from the IC requiring the Company to submit certain documents for which the Company subsequently submitted all requirements to the IC on February 28, 2020. On February 17, 2020, the IC published on its website a press release commending the Company for its early compliance with the P1.3 billion capital requirement which is not due until the end of 2022. The IC lauded the Company for its early compliance with the net worth requirement. In March 2020, the IC conducted a site visit of the Company to verify the capital infusion relative to the increase in authorized capital stock of the Company. Notwithstanding the requirements of the SEC for the recognition of the capital infusion as an equity account, the IC has acknowledged the Company's compliance with the required net worth.

As of December 31, 2019 and 2018, the Company is in compliance with the required Net worth as provided in "The Insurance Code".

<u>Inadmissible assets</u>
In any determination of a financial condition of any insurance company, there shall be allowed and admitted as assets only such assets legally or beneficially owned by the insurance company as determined by the Commissioner. The following assets shall in no case be allowed as admitted assets of an insurance company:

1. Goodwill, trade names, and other like intangible assets;
2. Prepaid or deferred charges for expenses and commissions paid by such insurance company;
3. Advances from officers which are not adequately secured and which are not previously allowed by the Commissioner, as well as advances to employees, agents and other persons on mere personal security;
4. Shares of stock of such insurance company, owned by it, or an equity therein; as well as loans secured thereby;
5. Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature and supplies;
6. Items of bank credits representing checks, drafts, or notes returned unpaid after the date of settlement;

7. The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such insurance company exceeds the aggregate value thereof as determined in accordance with the provisions of Insurance Code and/or rules of the Commissioner; and
8. Any asset, as the Commissioner from time to time determine to be non-admitted assets

The inadmissible assets of the Company as at December 31, 2019 and December 31, 2018 include the following:

	Note	**2019**	2018
Furniture, fixtures and office equipment, net	10	**1,349,207**	1,421,509
Deferred acquisition costs	11	**1,377,444**	4,383,047
Other assets, net of accrued investment income	13	**6,278,043**	5,943,663
Deferred tax assets	25	**22,436,558**	20,673,438
		31,441,252	32,421,657

Capital management objectives

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the Statement of financial position. Capital for the reporting periods under review is summarized as follows:

	2019	2018
Total liabilities	**848,872,157**	196,478,999
Total equity	**733,083,700**	736,080,596
Debt to equity ratio	**1.16**	0.27

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

7. Cash and cash equivalents

This account consists of:

	2019	2018
Cash on hand	**20,000**	20,000
Cash in banks	**27,433,803**	67,624,494
Cash equivalents	**693,343,942**	54,639,860
Total	**720,797,745**	122,284,354

Cash in banks are interest bearing account balances maintained in various banks of the Company. These generally earn interest at rates based on daily bank deposit rates ranging from 0.1% to 0.15%for the year ended December 31, 2019 and December 31, 2018.

Cash equivalents are short-term special deposits which are placed for varying periods depending on the immediate requirements of the Company, earn interest at rate ranging from 1.50% to 3.60% in2019 and 2018.Interest earned from cash and cash equivalents amounted to P2,506,490 in 2019 and P2,612,081 in 2018. (Note 20)

8. Insurance receivables

This account consists of the following:

	2019	2018
Premiums due and uncollected	**70,954,165**	69,600,296
Due from ceding companies and reinsurers	**55,265,954**	58,138,320
Less: Allowance for impairment losses	**3,745,805**	3,745,805
	51,520,149	54,392,515
Reinsurance recoverable on losses	**111,772,058**	177,911,890
Total	**234,246,372**	301,904,701

Premiums due and uncollected is net of commission payable amounting to P10,880,683 in 2019 and P10,270,695 in 2018. The amounts due from ceding companies and reinsurers pertain to assumed premiums. No additional provision for impairment losses was recognized for 2019 and 2018.

Allowance for impairment losses includes receivable from suspended companies in 2019 and 2018.

Loss reserve withheld by ceding companies pertains to the portion of reinsurance premiums withheld by ceding companies under treaty agreements and facultative reinsurances as reserve for losses. This amounted nil in 2019 and P390,968 in 2018.

9. Financial assets

Financial assets with quoted prices are measured at fair value while unquoted financial assets are carried at cost. The difference between the acquisition cost and the fair value is reflected as deduction to equity. Investment in bond which management intends to hold until maturity is measured at amortized cost which approximates its fair value.

	2019	2018
Investment in stock		
Quoted equity shares	**1,389,420**	1,523,340
Unquoted equity shares - financial asset at FVOCI	**21,866**	21,866
Investment in government bonds		
Financial Asset at FVPL	**391,232,923**	280,563,840
Financial Asset at amortized cost	**142,672,810**	143,309,739
Balance, December 31	**535,317,019**	425,418,785

Investment in government bonds has a term ranging from one (1) to twenty-five (25) years earned an interest rates ranging from 3.5% to 7.0% in 2019 and 2018. Interest earned from government bonds amounted to P23,558,361 in 2019 and P17,103,681 in 2018. (Note 20)

Movement of financial assets is as follows:

	2019	2018
Investment in government bonds		
Financial asset at FVPL		
January 1	**280,563,840**	324,356,865
Acquired/ (Matured)	**110,465,877**	99,449,493
Amortization on discount	**716,012**	1,288,902
Amortization on premium	**(512,806)**	(1,221,681)
Reclassified as FA at amortized cost	**-**	(143,309,739)
December 31	**391,232,923**	280,563,840
Financial asset at amortized cost		
January 1		
Face Value	**137,500,000**	137,500,000
Amortization on discount	**6,966,318**	7,873,011
Amortization on premium	**(1,793,508)**	(2,063,272)
December 31	**142,672,810**	143,309,739
Investment in stock - Financial asset at FVOCI		
January 1	**1,545,206**	1,628,906
Fair value adjustment	**(133,920)**	(83,700)
December 31	**1,411,286**	1,545,206
Total	**535,317,019**	425,418,785

The maturity profile of investment in government bonds is as follows:

	2019	2018
Financial asset at FVPL		
Due within one year	**9,999,221**	**49,828,530**
Due beyond one year	**381,233,702**	**230,735,310**
Financial asset at OCI		
Due within one year	-	-
Due beyond one year	**142,672,810**	**143,309,379**
Balance, December 31	**533,905,733**	**423,873,219**

The movement of revaluation reserve on financial asset at FVOCI is as follows:

	2019	2018
Balance, January 1	**(50,220)**	33,480
Fair value adjustment		(83,700)
Reversal of allowance on impairment losses	**(133,920)**	-
Balance, December 31	**(184,140)**	(50,220)

10. Property and equipment, net

The details of this account follow:

	Office premises and improvements	Furnitures and office equipment	Transportation equipment	Total
Cost				
Balance, December 31, 2017	65,723,630	13,169,799	2,209,679	81,103,108
Additions	-	1,256,106	-	1,256,106
Balance, December 31, 2018	65,723,630	14,425,905	2,209,679	82,359,214
Additions	-	322,607	91,875	414,482
Balance, December 31, 2019	65,723,630	14,748,512	2,301,554	82,773,696
Accumulated depreciation				
Balance, December 31, 2017	26,301,974	12,683,626	2,209,679	41,195,279
Depreciation expense	1,970,069	320,770	-	2,290,839
Balance, December 31, 2018	28,272,043	13,004,396	2,209,679	43,486,118
Depreciation expense	1,970,069	394,909	3,828	2,368,806
Balance, December 31, 2019	30,242,112	13,399,305	2,213,507	45,854,924
Net book value, December 31, 2019	**35,481,518**	**1,349,207**	**88,047**	**36,918,772**
Net book value, December 31, 2018	37,451,587	1,421,509	-	38,873,096

In December 2012, the Company obtained the services of an appraisal company accredited by the Insurance Commission, to appraise the value of the office premises in 15th floor of Citibank building, Makati City, Philippines, consisting of an office condominium unit and three parking lots. The appraisal of the particular property has been coordinated with and approved for recording by the Insurance Commission. The appraisal increase was recorded at P20,827,014. The recorded cost of office premises and improvements is P44,216,286, as at December 31, 2012. Depreciation on the revaluation increment in property amounts to P833,082 in 2019 and 2018. The balance of the revaluation increment in property amounts to P14,995,451 in 2019 and P15,828,533 in 2018.

As of December 31, 2019 and December 31, 2018, the following are fully depreciated properties that are still in use.

2019	**Cost**	Accumulated Depreciation
Office premises and improvements	**680,330**	680,330
Furnitures and office equipment	**3,672,849**	3,672,849
Transportation/computer equipment	**11,061,682**	11,061,682
Total	**15,414,861**	15,414,861

2018	**Cost**	Accumulated Depreciation
Office premises and improvements	**680,330**	680,330
Furnitures and office equipment	**3,235,799**	3,235,799
Transportation/computer equipment	**11,041,334**	11,041,334
Total	**14,957,463**	14,957,463

11. Deferred acquisition cost

Movement of this account is as follows:

	2019	2018
Balance, January 1	**4,383,047**	346,573
Released during the year	**(4,383,047)**	(346,573)
Deferred commission expense	**4,613,482**	4,472,842
Unearned commission income	**(3,236,039)**	(89,795)
Balance, December 31	**1,377,444**	4,383,047

12. Deferred reinsurance premium

Movement of this account are as follows:

	2019	2018
Balance, January 1	**8,591,492**	19,632,878
Ceded during the year	**41,541,759**	23,320,094
Amortized during the year	**(31,101,084)**	(34,361,481)
Balance, December 31	**19,032,167**	8,591,492

13. Other assets

This account consists of:

	2019	2018
Advances and other assets	**3,608,587**	3,494,868
Utility and other deposits	**1,799,800**	1,579,138
Accrued investment income	**5,551,737**	3,907,400
Cash under garnishment	**869,656**	869,656
Input VAT	**-**	188,652
Total	**11,829,780**	10,039,714

Cash under garnishment refers to cash on hold by the National Labor Regulations Commission (NLRC). The cash was garnished due to order issued by NLRC on alleged counterfeited bonds issued by perpetrator.

Advances and other assets represent cash provided to employees, agents, brokers and third party suppliers of goods and services and prepaid taxes.

14. Insurance liabilities

This account consists of:

	2019	2018
Reserve for unearned premiums	**24,873,164**	22,428,684
Claims payable	**145,494,664**	124,393,151
Due to reinsurers and ceding companies	**44,247,884**	40,656,743
Funds held for reinsurers	**819,056**	819,056
Total	**215,434,768**	188,297,635

Movement of reserve for unearned premiums is as follows:

	2019	2018
Balance, January 1	**22,428,684**	19,871,067
New policies written during the year	**49,018,303**	40,993,886
Premiums earned during the year	**(46,573,823)**	(38,436,269)
Balance, December 31	**24,873,164**	22,428,684

Claims payable consists of the estimated liability for reported claims, accrual of estimated losses incurred but not reported (IBNR).

	2019	2018
Claims reported and loss adjustment expenses	**124,276,797**	112,142,628
Provision for MFAD	**15,626,867**	5,803,523
Provision for IBNR	**4,460,000**	5,474,000
Provision for claims handling expense	**1,131,000**	973,000
	145,494,664	124,393,151

15. Accounts and other payables

	2019	2018
Accounts payable	**5,607,396**	5,577,769
Taxes payable	**440,232**	241,951
Documentary stamp tax payable	**167,989**	73,222
Others	**194,077**	217,984
Total	**6,409,693**	6,110,926

Accounts payable are payables to non-trade suppliers of goods and services, deferred VAT and accrued utilities.

16. Equity

The details of the Company's capital stock are shown below:

	2019	2018
Common stocks - P400 par value		
Authorized capital stock:		
2,000,000 shares	**800,000,000**	800,000,000
Issued and outstanding, January 1:		
1,776,143 shares;	**710,457,200**	710,457,200
	-	
	-	
Issued and outstanding, December 31	**710,457,200**	710,457,200

As of December 31, 2019, the Company's total issued and outstanding share capital is owned by fifty two (52) shareholders, eighteen (18) of which own more than 100 shares each.

At the meetings held on September 4, 2018 and December 26, 2019, the Corporation's Board of Directors by majority vote and the stockholders' affirmative vote of at least two thirds (2/3) of the outstanding capital stock, respectively, approved the increase in capital stock of the Corporation from Eight Hundred Million Pesos (P800,000,000.00) divided into Two Million (2,000,000) shares with a par value of Four Hundred Pesos (P400) per share to One Billion Four Hundred Fifty Million Pesos (P1,450,000,000.00) divided into Three Million Six Hundred Twenty Five Thousand (3,625,000) shares with a par value of Four Hundred Pesos (P400) per share.

The deposit for the increase in capital stock, received from Shriram General Insurance Company Limited was made through cash amounting to Philippine Peso Six Hundred Twenty-Three Million Eight Hundred Thirty-One Thousand Three Hundred and Ninety-Five and Cents Eighty-Nine only (P623,831,395.89) and was received in December 2019.

The transaction was recognized as a liability in the statement of financial position under the account Advances from Stockholders. The amount was not treated as part of equity since the SEC in its Financial Reporting Bulletin (FRB) No. 6-2012, as amended, has detailed specific requirements for deposits for future subscriptions to be treated as equity. According to the FRB:
"…an entity shall classify a contract to deliver its own equity instruments under equity as a separate account (e.g., Deposit for Future Stock Subscription) from "Outstanding Capital Stock" if and only if, all of the following elements are present as of end of the reporting period:

"1) The unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;
2) There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
3) There is stockholders' approval of said proposed increase; and
4) The application for the approval of the proposed increase has been presented for filing or has been filed with the Commission."

Since the proposed increase has not yet been presented for filing or has been filed with the SEC as of December 31, 2019, the cash infusion from the stockholders has not qualified as an account under equity, and has been classified as a liability.

The Company, in its letter dated January 10, 2020, informed the IC about the increase in Authorized Capital Stock. On February 11, 2020, the Company received a letter, dated January 24, 2020, from the IC requiring the Company to submit certain documents for which the Company subsequently submitted all requirements to the IC on February 28, 2020. On February 17, 2020, the IC published on its website a press release commending the Company for its early compliance with the P1.3 billion capital requirement which is not due until the end of 2022. The IC lauded the Company for its early compliance with the net worth requirement. In March 2020, the IC conducted a site visit of the Company to verify the capital infusion relative to the increase in authorized capital stock of the Company. Notwithstanding the requirements of the SEC for the recognition of the capital infusion as an equity account, the IC has acknowledged the Company's compliance with the required net worth.

Share premium amounted to P22,426,225 both in 2019 and 2018.

Treasury shares amounted to P457,200 both in 2019 and 2018.

Deposits for future subscription amounted to nil in 2019 and 2018. Deposit for future subscription pertains to the payments received from stockholders. Deposit for future subscription was received in 2017. However, all amounts were refunded to the stockholders in 2018.

Adjustments to retained earnings follow:

	2019	2018
Expired NOLCO	**4,735,876**	-
Expired excess MCIT	**240,713**	1,096,623

17. Actuarial gains on retirement benefit liability, net

Movement of this account is as follows:

	2019	2018
Balance, January 1	**728,520**	728,520
Actuarial loss during the year	**(542,667)**	-
Balance, December 31	**185,853**	728,520

18. Gross underwriting income

The account consists of:

	2019	2018
Premiums written	**24,754,980**	18,140,641
Premiums assumed	**24,263,324**	22,853,245
Gross premium written	**49,018,304**	40,993,886
Reinsurance premium ceded	**(41,541,758)**	(23,320,094)
Net premium retained	**7,476,546**	17,673,792
Decrease/ (Increase) in unearned premium	**7,996,195**	(13,599,003)
Commissions earned	**3,520,941**	3,690,208
Balance, December 31	**18,993,682**	7,764,997

19. Underwriting expenses

The account consists of:

	2019	2018
Commissions	**9,139,348**	7,961,792
Claims and losses, net	**10,895,018**	225,926
Other underwriting expense	**199,093**	97,791
As of December 31	**20,233,459**	8,285,509

20. Other income

The breakdown of other income is as follows:

	Notes	**2019**	2018
Interest income, net of amortization	7,9	**26,064,851**	19,782,984
Foreign exchang gain/(loss)		**2,817,008**	767,746
Dividend income		**5,997**	5,140
Miscellaneous		**19,011**	1,737
Total		**28,906,867**	20,557,607

21. General and administrative expenses

The breakdown of other expenses is as follows:

	Notes	2019	2018
Salaries, wages and employee benefits		**14,760,503**	11,207,292
Association and pool dues		**2,023,499**	1,964,402
Rent	24	**1,638,199**	1,385,113
Depreciation expense	10	**1,535,725**	1,457,759
Professional fees		**1,269,091**	1,439,082
Retirement expense	23	**1,252,304**	318,274
Utilities		**887,383**	772,121
Taxes and licenses		**713,822**	616,569
Travel and transportation		**538,995**	443,021
Communication		**393,256**	385,188
Representation		**318,928**	189,789
Christmas party		**264,677**	1,258,946
Supplies		**251,539**	405,345
Repairs, maintenance and janitorial services		**158,423**	242,073
Insurance		**105,975**	136,249
Promotion, advertising and networking		**67,948**	24,948
Training and seminar		**33,400**	2,143
Miscellaneous		**78,638**	255,103
Total		**26,292,306**	22,503,418

Details of salaries, wages and other benefits are as follows:

	2019	2018
Salaries and wages	**12,424,951**	9,363,962
Employees' benefits	**2,335,552**	1,843,330
Total	**14,760,503**	11,207,292

22. Interest expense

Interest expense pertains to underwriting expense and is not related to any financing cost.

23. Retirement benefits plan

The Company has a funded, non-contributory defined benefit type of retirement plan covering substantially all of its employees. The benefits normal retirement is equal to 125% of the final compensation as of the date of retirement multiplied by years of service.

Actuarial valuations are made at least every two years. The Company’s annual contributions to the defined benefit plan consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable.

The assumptions used in determining retirement benefit liability for the Company are as follows:

	2019	2018
Present value of the obligation	**3,047,138**	1,013,299
Fair value of plan assets	**(264,070)**	(257,774)
Underfunded obligation	**2,783,068**	755,525
Liability to be recognized in the Statement of financial position	**2,783,068**	755,525

The movements of present value of the retirement benefit liability recognized in the books are as follows:

	2019	2018
Balance, January 1	**1,013,299**	681,124
Interest cost	**57,758**	38,824
Current service cost	**1,209,239**	293,351
Actuarial gain	**766,842**	-
Balance, September 30/December 31	**3,047,138**	1,013,299

The movements of fair value of plan assets are as follows:

	2019	2018
Balance, January 1	**257,774**	243,873
Interest income	**14,693**	13,901
Remeasurement loss	**(8,397)**	-
Balance, September 30	**264,070**	257,774

The Company's actual return on plan assets is as follows:

	2019	2018
Interest income	**14,693**	13,901
Remeasurement loss	**(8,397)**	-
Actual return on plan asset	**6,296**	13,901

The amounts of retirement benefits expense recognized in the Statements of comprehensive income are as follows:

	2019	2018
Current service cost	**1,209,239**	293,351
Interest cost	**57,758**	38,824
Interest income on plan assets	**(14,693)**	(13,901)
Expense recognized during the year	**1,252,304**	318,274

Defined benefit cost recognized in other comprehensive income (OCI):

	2019	2018
Accumulated other comprehensive income, January 1	**(1,040,073)**	(1,040,073)
Actuarial gain - DBO	**766,842**	-
Remeasurement loss - plan assets	**8,397**	-
Defined benefit cost in OCI - income	**775,239**	-
Accumulated other comprehensive income, ending	**(265,504)**	(1,040,073)

For the determination of the movement of the retirement benefits liability, the following actuarial assumptions were used:

	2019	2018
Discount rate	**5.21%**	5.70%
Salary increase rate	**5.00%**	5.00%

Sensitivity analysis as follows:

Decrease in DBO due to 100 bps increase in discount rate	**(343,287)**	; (11.3%)
Increase in DBO due to100 bps decrease in discount rate	**418,731**	; 13.7%
Increase in DBO due to 100 bps increase in salary increase rate	**415,286**	; 13.6%
Decrease in DBO due to 100 bps decrease in salary decrease rate	**(346,906)**	; (12.0%)
Increase in DBO, no attrition rates	**364,662**	; 12.0%

Expected future benefit payments as follows:

Financial year	
2020	31,137
2021	43,857
2022	531,083
2023	2,286,561
2024	33,937
2025-2029	881,661

Allocation of plan assets as follows:

Financial year	
Cash and cash equivalents	0.59%
Unit investment trust fund	13.03%
Debt instruments - government bonds	83.41%
Other (Market gains/losses, accrued receivables, etc.)	2.97%
Total	100.00%

Weighted average duration of the retirement benefits liability is 12.5 as of December 31, 2019.

24. Lease commitments

The Company is a lessee under cancellable operating leases. The future minimum rentals payable under this cancellable operating lease are as follows:

	2019	2018
Within one year	**700,750**	693,750
More than one year but less than five years		-
Total	**700,750**	693,750

Total rental expense charged to operations amounted to P1,638,199 in 2019 and 1,385,113 in 2018. (Note 21)

25. Income taxes

Corporate income tax rate – 30%
The income tax (benefit)/ expense consists of the following:

	2019	2018
Current:		
Regular corporate income tax	-	-
Final tax on interest income	**5,294,241**	3,975,129
Deferred:		
NOLCO	**(8,530,305)**	(3,719,988)
Deferred acquisition cost	**(901,681)**	1,210,942
Reserve for unearned premium	**2,398,858**	(4,079,701)
Retirement benefits expense	**(375,691)**	(95,482)
Income tax benefit	**(2,114,579)**	(2,709,100)

A reconciliation of tax on pretax income computed at the applicable statutory rates to income tax expense as reported in the income statements is as follows:

	2019	2018
Tax on pretax income at prevailing rate	**412,435**	(747,792)
Adjustment for items subject to lower tax rates:		
Interest income	**(2,525,214)**	(1,959,766)
Tax effect on:		
Non-deductible expense	-	-
Non-taxable income	**(1,799)**	(1,542)
Total	**(2,114,579)**	(2,709,100)

Deferred income tax assets

Components of the Company's deferred income tax (DTA) assets account are as follows:

	2019	2018
Allowance for reinsurance receivable	**1,123,741**	1,123,741
Reserve for unearned premium	**(3,869,730)**	(1,470,872)
NOLCO	**24,151,397**	20,356,968
MCIT	**196,230**	436,943
Retirement benefits obligation	**834,920**	226,658
Total	**22,436,558**	20,673,438

Validity of NOLCO as follows:

Year incurred	Validity	Amount	Expired in the current year	Applied in the previous year	Balance
2019	2022	28,434,352	-	-	28,434,352
2018	2021	12,339,960	-	-	12,339,960
2017	2020	39,670,343	-	-	39,670,343
2016	2019	15,786,256	15,786,256.00	-	-
		96,230,911	15,786,256.00	-	**80,444,655**

Validity of MCIT as follows:

Year incurred	Validity	Amount	Applied	Expired	Balance
2016	2019	240,713	-	240,713.00	-
2018	2021	196,230	-	-	196,230
		436,943	**-**	**240,713**	**196,230**

Deferred income tax liability

Components of deferred income tax liability are as follows:

	2019	2018
Deferred acquisition cost	**413,232**	1,314,913

26. Earnings per common share

	2019	2018
Profit for the year	**3,489,363**	216,461
Weighted average number of common shares	**1,776,143**	1,776,143
As of December 31	**1.96**	0.12

27. Related party transactions

In the ordinary course of trade or business, the Company has transaction with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influences.

Advances from Stockholders

As detailed in Note 6, the Company has increased its authorized capital stock. Relative to this, the Company stockholders has deposited cash in the amount of Philippine Peso Six Hundred Twenty-Three Million Eight Hundred Thirty-One Thousand Three Hundred and Ninety-Five and Cents Eighty-Nine only (P623,831,395.89) in December 2019. The IC verified and acknowledged the Company's capital infusion and that under IC rules, the Company complied with the minimum capital requirement as set forth in the Insurance Code. The Insurance Commissioner, in a press release published in the IC's website, commended the Company for its early compliance with the net worth requirement. However, due to SEC rules, as discussed in Note 6, the amount was lodged under the liability account Advances from Stockholders.

Key management personnel compensation

The key management compensation consists of salaries, allowances and employee benefits amounting P7,623,869 and P3,123,120 in 2019 and 2018, respectively.

Defined benefits plan

The Company has a significant influence over the funding and management of the Company's plan assets. The outstanding amount of the plan assets amounts to P264,070 in 2019 and P257,774 in 2018. The Company paid no benefits from plan assets both in 2019 and 2018. No contribution was made both in 2019 and 2018.

28. Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Directors through the Company's President, Mr. Farhat Hussain on April 30, 2020.

29. Supplementary information required by the Bureau of Internal Revenue

Revenue Regulations No. 15-2010 issued by the Bureau of Internal Revenue requires, in addition to the disclosures mandated under the Philippine Financial Reporting Standards, and such other standards and/or conventions as may heretofore be adopted, the Notes to Financial Statements to include information on taxes, duties and license fees paid or accrued during the taxable year, as follows:

Output VAT

Details of the Company's output VAT declared are as follows:

	VATable	**VAT - Zero-rated**	**VAT - exempt**	**2019**	2018
Vatable receipts	28,645,178	218,000	865,250	**29,728,428**	18,399,699
Output VAT rate	12%	0%	-	**12%/0%**	12%/0%
Total	3,437,421	-	-	**3,437,421**	2,007,537

Input VAT

Details of the Company's input VAT claimed are as follows:

	2019	2018
Balance, January 1	**188,652**	-
Add: Current year's domestic purchases/payments for:		
Purchase of services	**1,903,017**	1,894,261
Purchase of capital goods and domestic purchases of goods other than capital goods	**-**	-
Total available input VAT	**2,091,669**	1,894,261

Documentary stamp tax (DST)

The DST paid/accrued during the reporting period was P3,121,534 in 2019 and P2,343,276 in 2018 for insurance of policies.

Other taxes and licenses

	OR No.	**2019**	2018
Community tax	CCC201700110200	**7,740**	5,278
Business permits	3929831BT	**55,783**	43,599
Percentage taxes and various	various	**650,299**	567,692
Total per Statement of Comprehensive Income		**713,822**	616,569

Withholding taxes

The amount of withholding taxes paid/accrued for the taxable year 2018 amounted to:

	2019	2018
Tax withheld by the company on:		
Compensation	**1,732,805**	1,255,644
Expanded	**975,761**	1,087,201
Final	**-**	7,895
Total	**2,708,566**	2,350,740

Taxes on importation of goods

The Company has no importation of goods, hence, no taxes were paid during the reporting period.

Excise tax

The Company has no excise tax paid during the reporting period.

Others

As of the year ended December 31, 2019, the Company received a Letter of Authority from the BIR covering 2018 taxes. The examination of the 2018 accounts of the Company is still ongoing as of reporting date.

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MAM & Co.

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Report of Independent Auditor
To Accompany Income Tax Return

The Board of Directors and Stockholders
SGI Philippines General Insurance Company, Inc.
15th Floor, Citibank Tower
8741 Paseo de Roxas
Makati City, Philippines

We have audited the financial statements of **SGI Philippines General Insurance Company, Inc.** **(**the Company) for the year ended December 31, 2019, on which we have rendered the attached report dated April 30, 2020.

In compliance with Revenue Regulations V-1, we are stating that no partner of our Firm is related by consanguinity or affinity to the President or any principal stockholders and officers of the Company.

M.A. MERCADO & CO.

By: **Meriam F. Comia**
Partner
CPA License No. 074629
Tax Identification No. 102-920-894
P.T.R. No. 8130635; Issued on January 10, 2020, Makati City
SEC Accreditation No. 1533-AR-1 (Group C)
Issued January 15, 2019; Valid until January 14, 2022
IC Accreditation No. SP-2018-015-R
Issued on April 7, 2018; Valid until April 6, 2021
BIR Accreditation No. 08-006173-001-2018
Issued March 22, 2018; Valid until March 22, 2021
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued September 18, 2017; Valid until September 17, 2020
Firm's SEC Accreditation No. 0320-FR-1
Issued January 15, 2019; Valid until January 14, 2022
Firm's IC Accreditation No. F-2018-006-R
Issued on April 7, 2018; Valid until April 2021
Firm's BIR Accreditation No. 08-006173-000-2018
Issued March 22, 2018; Valid until March 22, 2021

April 30, 2020
Makati City, Philippines

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.

SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		
PFRSs Practice Statement Management Commentary		N/A
Philippine Financial Reporting Standards		
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	A
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	N/A
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	N/A
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	N/A
	Amendments to PFRS 1: Government Loans	N/A
PFRS 2	Share-based Payment	N/A
	Amendments to PFRS 2: Vesting Conditions and Cancellations	N/A
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	N/A
	Amendments to PFRS 2: Classification and Measurement of Share-Based Payment	N/A
PFRS 3 (Revised)	Business Combinations	N/A
PFRS 4	Insurance Contracts	A
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	N/A
	Amendments to PFRS 5: Changes in Methods of Disposal	N/A
PFRS 6	Exploration for and Evaluation of Mineral Resources	N/A
PFRS 7	Financial Instruments: Disclosures	A
	Amendments to PFRS 7: Transition	A
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	A
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	A
	Amendments to PFRS 7: Improving Disclosures about	A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
	Financial Instruments	
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	A
	Amendments to PFRS 7: Servicing Contracts	N/A
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	N/A
PFRS 8	Operating Segments	N/A
PFRS 9	Financial Instruments	A
	Classification and Measurement of Financial Liabilities	A
	Financial Instruments (Amendments)	A
PFRS 10	Consolidated Financial Statements	N/A
	Amendments to PFRS 10: Transition Guidance	N/A
	Amendments to PFRS 10: Investment Entities	N/A
PFRS 11	Joint Arrangements	N/A
	Amendments to PFRS 11: Transition Guidance	N/A
	Amendments to PFRS 11: Accounting for Acquisitions of Interest in Joint Operations	N/A
PFRS 12	Disclosure of Interests in Other Entities	N/A
	Amendments to PFRS 12: Transition Guidance	N/A
	Amendments to PFRS 12: Investment Entities	N/A
PFRS 13	Fair Value Measurement	A
PFRS 14	Regulatory Deferral Accounts	N/A
PFRS 15	Revenue from Contracts with Customers	N/A
PFRS 16	Leases	A
Philippine Accounting Standards		
PAS 1 (Revised)	Presentation of Financial Statements	A
	Amendment to PAS 1: Capital Disclosures	A
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	N/A
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	A
	Amendments to PAS 1: Disclosure Initiative	A
PAS 2	Inventories	N/A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
PAS 7	Statement of Cash Flows	A
	Amendments to PAS 7: Disclosure Initiative	A
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	A
PAS 10	Events after the Balance Sheet Date	A
PAS 11	Construction Contracts	N/A
PAS 12	Income Taxes	A
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	A
	Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	A
PAS 16	Property, Plant and Equipment	A
	Amendments to PAS 16: Clarifications of Acceptable Methods of Depreciation and Amortization	A
PAS 17	Leases	A
PAS 18	Revenue	A
PAS 19 Revised	Employee Benefits	A
	Amendments to PAS 19: Discount Rate: Regional Market Issue	A
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	N/A
PAS 21	The Effects of Changes in Foreign Exchange Rates	N/A
	Amendment: Net Investment in a Foreign Operation	N/A
PAS 23 (Revised)	Borrowing Costs	N/A
PAS 24 (Revised)	Related Party Disclosures	A
PAS 26	Accounting and Reporting by Retirement Benefit Plans	N/A
PAS 27 (Amended)	Separate Financial Statements	N/A
	Amendments to PAS 27 (Amended): Investment Entities	N/A
	Amendments to PAS 27: Equity Method in Separate Financial Statements	N/A
PAS 28 (Amended)	Investments in Associates and Joint Ventures	N/A
PAS 29	Financial Reporting in Hyperinflationary Economies	N/A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
PAS 32	Financial Instruments: Disclosure and Presentation	A
	Financial Instruments: Presentation	A
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	N/A
	Amendment to PAS 32: Classification of Rights Issues	N/A
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	A
PAS 33	Earnings per Share	A
PAS 34	Interim Financial Reporting	N/A
	Amendments to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	N/A
PAS 36	Impairment of Assets	A
	Amendments to PAS 36: Recoverable amount Disclosures for Non-Financial Assets	A
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	A
PAS 38	Intangible Assets	A
PAS 39	Financial Instruments: Recognition and Measurement	A
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	A
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	N/A
	Amendments to PAS 39: The Fair Value Option	N/A
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	N/A
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	A
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	A
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	N/A
	Amendment to PAS 39: Eligible Hedged Items	N/A
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	N/A
PAS 40	Investment Property	A
PAS 41	Agriculture	N/A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
Philippine Interpretations		
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	N/A
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	N/A
IFRIC 4	Determining Whether an Arrangement Contains a Lease	N/A
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	N/A
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	N/A
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	N/A
IFRIC 9	Reassessment of Embedded Derivatives	N/A
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	N/A
IFRIC 10	*Interim Financial Reporting and Impairment*	N/A
IFRIC 12	Service Concession Arrangements	N/A
IFRIC 13	Customer Loyalty Program	N/A
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	N/A
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	N/A
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	N/A
IFRIC 17	Distributions of Non-cash Assets to Owners	N/A
IFRIC 18	Transfers of Assets from Customers	N/A
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	N/A
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	N/A
IFRIC 21	Levies	N/A
SIC-7	Introduction of the Euro	N/A
SIC-10	Government Assistance - No Specific Relation to Operating Activities	N/A
SIC-12	Consolidation - Special Purpose Entities	N/A
	Amendment to SIC - 12: Scope of SIC 12	N/A
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturer	N/A

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2019		REMARKS (A=Adopted, NOA= Not Adopted, N/A=Not Applicable)
SIC-15	Operating Leases - Incentives	N/A
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	N/A
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	N/A
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	N/A
SIC-29	Service Concession Arrangements: Disclosures.	N/A
SIC-31	Revenue - Barter Transactions Involving Advertising Services	N/A
SIC-32	Intangible Assets - Web Site Costs	N/A

MAM & Co.

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INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and Stockholders
SGI Philippines General Insurance Company, Inc.
15th Floor, Citibank Tower
8741 Paseo de Roxas
Makati City, Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of **SGI Philippines General Insurance Company, Inc.** as at December 31, 2019 and 2018 and for each of the years then ended, and have issued our report thereon dated April 30, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statement taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the years then ended and no material exceptions were noted.

M.A. MERCADO & CO.

By: **Meriam F. Comia**
Partner
CPA License No. 074629
Tax Identification No. 102-920-894
P.T.R. No. 8130635; Issued on January 10, 2020, Makati City
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Issued on April 7, 2018; Valid until April 2021
Firm's BIR Accreditation No. 08-006173-000-2018
Issued March 22, 2018; Valid until March 22, 2021

April 30, 2020
Makati City, Philippines

SGI PHILIPPINES GENERAL INSURANCE COMPANY, INC.
(A Non-life Insurance Company)

Ratio	Formula		2019	2018
Current Ratio	Total Current Assets divided by Total Current Liabilities		4.31	11.86
	Total Current Assets	955,044,117.00		
	Divided by: Total Current Liabilities	221,844,461.00		
	Current Ratio	4.31		
Acid test Ratio	Quick Assets (Totsl Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities		4.25	11.86
	Total Current Assets	955,044,117.00		
	Less: Inventories	-		
	Other Current Assets	11,829,780.00		
	Quick Assets	943,214,337.00		
	Divide by: Total Current Liabilities	221,844,461.00		
	Acid test Ratio	4.25		
Working Capital to Total Asset	Working Capital divided by Total Asset		0.46	0.91
	Working Capital	733,199,656.00		
	Divided by: Total Asset	1,581,955,857.00		
		0.46		
Debt to Total Assets Ratio	Total Debt Divided by Total Asset		0.54	0.30
	Total Debt	848,872,156.72		
	Divided by: Total Asset	1,581,955,857.00		
		0.54		
Debt to Equity Ratio	Total Debt divided by Total Equity		1.16	0.44
	Total Debt	848,872,156.72		
	Divided by: Total Equity	733,083,700.28		
		1.16		
Asset to Equity Ratio	Total Asset divided by Total Equity		2.16	1.44
	Total Asset	1,581,955,857.00		
	Divided by: Total Equity	733,083,700.28		
		2.16		
Gearing Ratio	Net Debt divided by Total Capital		0.15	0.10
	Net Debt	128,074,411.72		
	Divided by: Total Capital	861,158,112.00		
		0.15		
Interest Coverage Ratio	EBIT divided by Interest Expense		Not Applicable	
	EBIT			
	Divided by: Interest Expense			
Gross Profit Margin	Gross Profit Divided by Commission Revenue		7.86	0.32
	Gross Profit	27,667,090.00		
	Divided by: Commission Revenue	3,520,941.00		
		7.86		
Profit Margin	Net Income/(Loss) Divided by: Commission Revenue		0.99	(2.11)
	Net Income/(Loss)	3,489,362.59		
	Divided by: Commission Revenue	3,520,941.00		
		0.99		
Return on Asset (ROA)	Net Income/(Loss) Divided by Average Asset		0.00	(0.10)
	Net Income/(Loss)	3,489,362.59		
	Divided by: Average Asset	2,048,235,654.50		
		0.00		
Return on Equity	Net Income/(Loss) Divided by Average Equity		0.00	(0.16)
	Net Income/(Loss)	3,489,362.59		
	Diveded by: Average Equity	1,101,123,998.23		
		0.00		