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Financial Statements and  
Independent Auditors' Report

**United Coconut Planters Life  
Assurance Corporation**

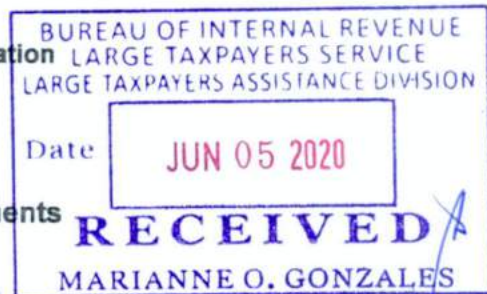
December 31, 2019 and 2018



## Report of Independent Auditors

### The Board of Directors

**United Coconut Planters Life Assurance Corporation**  
Cocolife Building, 6807 Ayala Avenue  
Makati City



### Report on the Audit of the Financial Statements

#### *Qualified Opinion*

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

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, 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 Qualified Opinion*

##### (a) *Validity and Recoverability of Available-for-Sale (AFS) Financial Assets*

- (i) *Investments in Coconut Industry Investment Fund (CIIF) Oil Mills Companies and United Coconut Planters Bank (UCPB)*

The Company has investments in CIIF Oil Mills Companies and UCPB common shares, which are carried as AFS financial assets measured at fair value and at cost, respectively, as disclosed in Note 10 to the financial statements. As of December 31, 2018, the carrying amount of the Company's investments in both CIIF Oil Mills Companies and UCPB common shares amounted to P6.3 billion, which represent 23% and 62% of the Company's total assets and net assets, respectively, as of December 31, 2018. These investments were fully written off in 2019.

As fully discussed in Note 10 to the financial statements, on January 24, 2012, the Supreme Court (SC) rendered its decision in the case entitled Philippine Coconut Producers Federation, Inc., et. al vs. Republic, et. al., docketed as General Register (GR) Nos. 177857-58 and 178193 in favor of the government involving (a) the ownership of certain sequestered shares of UCPB; and, (b) the ownership over the CIIF Oil Mills Companies, the 14 CIIF holding companies and the shares of stock in San Miguel Corporation (SMC) held by the 14 CIIF Holding companies, together with all dividends declared, paid and issued thereon as well as any increments thereto arising from, but not limited to, exercise of pre-emptive rights. Relative to the SC decisions, on May 18, 2015, the President of the Republic of the Philippines issued Executive Orders (EOs) regarding the inventory, reconveyance, utilization and privatization of coco levy assets. The EOs made reference to the SC decision stating that a majority of the sequestered shares of stock of the CIIF Oil Mills Companies, the CIIF Holding Companies, UCPB shares and the Converted SMC Series 1 Preferred Shares is owned by the Republic of the Philippines for the benefit of the coconut farmers and for the development of the coconut Industry, thus making it a part of the coco levy assets.

On December 10, 2014, the SC issued a resolution directing that an entry of judgment be made for its January 24, 2012 Decision, which ordered the reconveyance of the CIIF Block of SMC shares and the UCPB shares to the Philippine Government to be used exclusively for the benefit of coconut farmers and the development of the local coconut industry.

On June 30, 2015, the SC issued a temporary restraining order enjoining the implementation of the EOs but prior to such issuance, there was a transfer of fund at the Bureau of Treasury from the account "Presidential Commission on Good Government in trust for 14 CIIF Holding Companies" to "Special Account in the General Fund for Coco Levies" account.

On September 15, 2015, the SC dismissed the separate petitions made by UCPB and the Company last December 28, 2012 for declaratory relief which was filed before the Makati Regional Trial Court (Makati RTC). The SC confirms that the Makati RTC has no jurisdiction over the Company's petition. The SC further confirms that the Sandiganbayan has sole jurisdiction over any and all incidents affecting the coco levy funds and assets.

On April 4, 2016, the Presidential Commission of Good Government filed before the Sandiganbayan a motion for partial execution of the January 24, 2012 decision of the SC in GR Nos. 177857-58 and 178193. However, on April 19, 2017, the Company filed a motion for leave of court to file comment before the Sandiganbayan to protect or preserve the vested right or legal interest of the Company that will be adversely affected by the execution of the EOs.

On December 29, 2017, the Sandiganbayan favorably acted on the Company's, UCPB's and the CIIF Oil Mill's pleadings and allowed them to be heard by presenting their legal positions and claims on the CIIF Oil Mills Group investments on January 29, 2018. The Government through the Office of the Solicitor General (OSG) filed a Motion for Reconsideration for the December 29, 2017 resolution of the Sandiganbayan.

On August 7, 2018, the Sandiganbayan granted the Republic's Motion for Reconsideration by setting aside its December 29, 2017 Resolution and issuing a partial writ of execution as prayed by the Republic. Cocolife, UCPB and the CIIF Oil Mills Group filed their respective Motions for Reconsideration but said motions were denied in a Resolution dated December 3, 2018. Cocolife, UCPE and the CIIF Oil Mills Group elevated the case to the Supreme Court by filing at Petition for Certiorari under Rule 65 but the same remains pending up to date of the audit report.

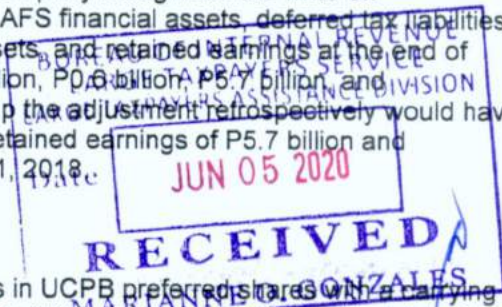
With the foregoing Sandiganbayan and SC decisions rendering favorable judgment to the government and the EOs issued by the President of the Republic of the Philippines, the validity of the Company's rights, as well as, the recoverability of its investments in CIIF Oil Mills Companies and UCPB common shares amounting to P6.3 billion as of December 31, 2018, was deemed uncertain and should, therefore, already be impaired as of December 31, 2014. In this regard, PFRS requires the Company to assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. As of December 31, 2018, the Company assessed that these investments are indeed impaired. However, the Company had only written off portion of the carrying amount of its investments in CIIF Oil Mills Companies and UCPB common shares, in 2018, amounting to P700.6 million, which was adjusted against the balance of deferred tax liabilities, reserve for fluctuation of AFS financial assets and profit or loss amounting to P63.4 million, P570.1 million, and P67.1 million, respectively.

In 2019, the Insurance Commission approves the Company's proposal to immediately write-off the investments in CIIF Oil Mills Companies and UCPB common shares, hence, the Company decided to write-off the remaining balance of its investments in the aforementioned shares amounting to P6.3 billion. The Company adjusted this against the balance of deferred tax liabilities, reserve for fluctuation of AFS financial assets and retained earnings amounting to P569.0 million, P5.1 billion, and P604.2 million, respectively.

The write-off made by the Company in 2019 was recognized directly to the retained earnings in 2019. However, the Company should have effected the write-off to the opening balance of the retained earnings on the earliest period presented. Additionally, for the 2018 financial statements, had the Company recognized the write-off retrospectively, the carrying amounts of the AFS financial assets, deferred tax liabilities, reserve for fluctuations on AFS financial assets, and retained earnings at the end of 2018 should have been reduced by P7.0 billion, P0.6 billion, P5.7 billion, and P0.7 billion, respectively. Likewise, taking up the adjustment retrospectively would have resulted in adjustments to total equity and retained earnings of P5.7 billion and P0.6 billion, respectively, as of December 31, 2018.

(ii) *Investments in Other Equity Investments*

The Company assessed that its investments in UCPB preferred shares with a carrying amount of P100.0 million, as of December 31, 2019, are already impaired in light of the recent developments in the CIIF Oil Mills Companies and UCPB case. In addition, the Company assessed that various equity investments amounting to P1.0 billion are also impaired, due to the significant and prolonged decline of the market price of those shares. However, management adjusted retroactively these impairment losses against the opening balance of Retained Earnings account as management believes that these investments were already impaired in prior years due to persistent fair value losses incurred from these investments. In accordance with Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, when a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Reserve for fluctuation on AFS financial asset account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Accordingly, the amount of impairment losses should have been charged in profit or loss in 2019 instead of directly charging it to retained earnings. Had the Company recognized such impairment losses in profit or loss in 2019, the 2019 net profit should have been reduced by P1.0 billion. Such impairment, however, has no impact on the total comprehensive income, retained earnings and equity as of and for the year ended December 31, 2019.



**(b) Impairment of Investments in Subsidiaries**

The Company has investments in Cocoplans Inc. (Cocoplans) classified as investments in subsidiaries. The cost of investments is deemed to be impaired as of December 31, 2019, as the recoverable amount was significantly lower than its respective carrying amount. In accordance with PAS 36, *Impairment of Assets*, an asset is impaired when its carrying amount exceeds its recoverable amount. Consequently, an impairment loss shall be recognized immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard.

As of December 31, 2019 and 2018, the Company assessed that its investments in Cocoplans is partially impaired by P50.9 million and P211.5 million, respectively. However, management adjusted retroactively these impairment losses against the opening balance of Retained Earnings account as management believes that the investments in such subsidiary was already impaired in prior years due to continuing losses of Cocoplans. In accordance with PAS 36, an impairment loss shall be recognized in the profit or loss in the period the impairment was assessed. Accordingly, the amount of impairment losses should have been charged to profit or loss in 2019 and 2018. Had the Company recognized such impairment losses in profit or loss in 2019 and 2018, the net profit for both years should have been reduced by P50.9 million and P211.5 million, respectively.

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' 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 audits 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 qualified opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.



### ***Auditors' Responsibilities for the Audit of the Financial Statements***

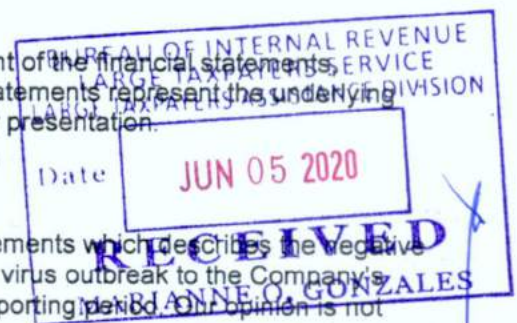
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

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

### ***Emphasis of a Matter***

We draw attention to Note 35 in the notes to financial statements which describes the negative impact of the business disruption as a result of the corona virus outbreak to the Company's financial condition and performance after the end of the reporting period. Our opinion is not modified in respect to this matter.


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 Legal and 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 for the year ended December 31, 2019 required by the Bureau of Internal Revenue as disclosed in Note 40 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS; neither it is required by the Revised Securities Regulation Code Rule 68, of the Philippine Securities and Exchange Commission. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **PUNONGBAYAN & ARAULLO**

  
By: **Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 7333697, January 3, 2019, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-4 (until Sept. 4, 2022)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-022-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 27, 2020



UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION  
 STATEMENTS OF FINANCIAL POSITION  
 DECEMBER 31, 2019 AND 2018  
 (Amounts in Philippine Pesos)

	Notes	2019	2018
<b>ASSETS</b>			
CASH AND CASH EQUIVALENTS	7	P 2,398,865,181	P 2,758,306,117
INSURANCE RECEIVABLES - Net	8	867,115,045	705,597,601
<b>TRADING AND INVESTMENT SECURITIES</b>			
Financial assets at fair value through profit or loss (FVPL)	9	3,258,571,304	3,461,926,397
Available-for-sale (AFS) financial assets	10	7,498,952,206	11,604,723,224
LOANS AND OTHER RECEIVABLES - Net	11	6,781,246,918	6,956,667,459
ACCRUED INCOME - Net	12	87,808,355	63,180,439
REINSURANCE ASSETS	13	5,392,594	19,626,422
INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE - Net	14	943,889,423	929,396,949
REAL ESTATE INVENTORIES	15	17,699,636	20,081,136
INVESTMENT PROPERTIES - Net	16	849,427,824	853,098,151
PROPERTY AND EQUIPMENT - Net	17	154,826,473	158,453,610
INTANGIBLE ASSETS - Net	19	40,873,251	5,417,569
DEFERRED TAX ASSETS - Net	33	206,114,668	-
RIGHT-OF-USE ASSETS	18	64,082,142	-
OTHER ASSETS - Net	20	519,637,559	361,152,849
<b>TOTAL ASSETS</b>		<b>P 23,694,502,579</b>	<b>P 27,897,627,923</b>
<b>LIABILITIES AND EQUITY</b>			
INSURANCE CONTRACT LIABILITIES	21	P 16,825,220,234	P 14,643,775,238
RESERVE FOR POLICYHOLDERS' DIVIDENDS	22	197,463,689	191,724,568
PREMIUM DEPOSIT FUNDS	23	719,306,687	646,413,900
INSURANCE PAYABLES	24	40,620,165	74,102,265
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	25	1,421,997,156	1,523,583,427
DEFERRED TAX LIABILITIES - Net	33	-	396,855,686
NET PENSION LIABILITY	32	130,064,209	99,331,640
LEASE LIABILITIES	18	66,131,547	-
OTHER LIABILITIES	25	119,200,447	144,819,842
Total Liabilities		<b>19,520,004,134</b>	<b>17,720,606,566</b>
<b>EQUITY</b>			
Capital stock		550,000,000	550,000,000
Contributed surplus		10,000,000	10,000,000
Reserve for fluctuation on AFS financial assets		107,844,792	4,069,713,646
Reserve for net pension liability		285,321,736	( 201,608,532 )
Reserve for life insurance policy	2	358,045,514	1,245,646,438
Retained earnings	26	3,433,929,875	4,503,269,805
Total Equity		<b>4,174,498,445</b>	<b>10,177,021,357</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 23,694,502,579</b>	<b>P 27,897,627,923</b>



See Notes to Financial Statements.



UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION  
STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(Amounts in Philippine Pesos)

	Notes	2019	2018
<b>NET INSURANCE PREMIUMS</b>			
	27		
Gross premiums on insurance contracts		P 7,072,986,370	P 6,534,724,558
Reinsurance premiums ceded		( 8,658,970 )	( 24,086,301 )
		<u>7,064,327,400</u>	<u>6,510,638,257</u>
<b>OTHER REVENUES</b>			
Investment income	28	1,401,474,959	1,110,617,529
Service fees	29	438,644,469	378,322,654
Foreign exchange gains - net	9, 10	-	3,529,323
Other income	28	503,685,989	947,181,245
		<u>2,343,805,417</u>	<u>2,439,650,751</u>
<b>NET INSURANCE BENEFITS AND CLAIMS</b>			
	30		
Gross benefits and claims		4,467,371,295	3,671,872,292
Gross change in insurance contract liabilities		1,032,696,831	1,709,498,063
Reinsurers' share on benefits and claims		-	( 13,732,014 )
Reinsurers' share of gross change in insurance contract liabilities		38,546	190,638
		<u>5,500,106,672</u>	<u>5,367,828,979</u>
<b>OPERATING AND ADMINISTRATIVE EXPENSES</b>			
General and administrative expenses	31	1,925,722,067	1,499,373,254
Commissions		681,472,375	721,848,153
Investment expenses	28	265,118,437	233,865,696
Insurance taxes		130,544,427	124,122,354
Policyholders' dividends		49,976,354	51,272,457
Premium refund		23,910,825	273,031,337
Increase in loading and cost of collection	2	12,130,336	15,037,413
Foreign exchange losses - net		5,390,073	-
Interest expense		-	272,325
		<u>3,094,264,894</u>	<u>2,918,822,989</u>
<b>PROFIT BEFORE TAX</b>		<u>813,761,251</u>	<u>663,637,040</u>
<b>TAX EXPENSE</b>	33	92,945,821	67,215,501
<b>NET PROFIT</b>		<u>720,815,430</u>	<u>596,421,539</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Remeasurement of life insurance policy reserves	2	( 887,600,924 )	977,983,130
Remeasurement of net pension liability	32	( 119,590,292 )	11,942,988
Income tax effect	33	35,877,088	( 3,582,896 )
		<u>( 971,314,128 )</u>	<u>986,343,222</u>
<b>Items that will be reclassified subsequently to profit or loss</b>			
Fair value losses (gains) on impairment of AFS financial assets reclassified to profit or loss	10	( 5,700,098,399 )	633,463,914
Fair value gains (losses) during the year	10	1,169,188,849	( 1,813,302,610 )
Income tax effect	33	569,040,696	( 63,346,391 )
	10	<u>( 3,961,868,854 )</u>	<u>( 1,243,185,087 )</u>
<b>Other Comprehensive Loss - net of tax</b>		<u>( 4,933,182,982 )</u>	<u>( 256,841,865 )</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<u>( P 4,212,367,552 )</u>	<u>P 339,579,674</u>



UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION  
STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018  
(Amounts in Philippine Pesos)

Notes	Capital Stock	Contributed Surplus	Reserve for Fluctuation on AFS Financial Assets	Reserve for Net Pension Liability	Reserve for Life Insurance Policy	Retained Earnings		Total
						Appropriated	Unappropriated	
Balance at January 1, 2019	P 550,000,000	P 10,000,000	P 4,069,713,646	( P 201,608,532 )	P 1,245,646,438	P 61,659,781	P 4,441,610,024	P 10,177,021,357
Impairment of investment in subsidiaries and equity investments	-	-	-	-	-	-	( 1,790,155,360 )	( 1,790,155,360 )
Reversal of appropriation for policy reserves	-	-	-	-	-	7,515,321	7,515,321	-
Total comprehensive income (loss) for the year	-	-	( 3,961,868,854 )	( 83,713,204 )	( 887,600,924 )	-	720,815,430	( 4,212,367,552 )
Balance at December 31, 2019	P 550,000,000	P 10,000,000	P 107,844,792	( P 285,321,736 )	P 358,045,514	P 54,144,460	P 3,379,785,415	P 4,174,498,445
Balance at January 1, 2018	P 550,000,000	P 10,000,000	P 5,312,898,733	( P 209,968,624 )	P 267,663,308	P 36,451,653	P 4,118,546,740	P 10,085,591,810
Impairment of investment in subsidiaries and others	-	-	-	-	-	-	( 248,150,127 )	( 248,150,127 )
Additional appropriation for policy reserves	-	-	-	-	-	25,208,128	25,208,128	-
Total comprehensive income (loss) for the year	-	-	( 1,243,185,087 )	( 8,360,092 )	( 977,983,130 )	-	596,421,539	( 339,579,674 )
Balance at December 31, 2018	P 550,000,000	P 10,000,000	P 4,069,713,646	( P 201,608,532 )	P 1,245,646,438	P 61,659,781	P 4,441,610,024	P 10,177,021,357

See Notes to Financial Statements.



**UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	Notes	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		P 813,761,251	P 663,637,040
Adjustments for:			
Interest income	28	( 1,009,927,703 )	( 943,090,660 )
Gain on sale of available-for-sale (AFS) financial assets	28	( 159,082,792 )	( 117,382,762 )
Dividend income	28	( 109,752,584 )	( 105,680,467 )
Depreciation and amortization	31	86,575,492	43,684,508
Unrealized fair value loss (gain) on financial assets at FVPL	28	( 84,192,762 )	65,430,684
Provision for impairment loss	31	14,423,571	127,422,933
Loss (gain) on sale of investment properties	28	( 8,634,227 )	3,127,934
Unrealized foreign exchange gains - net	9, 10, 24	5,390,073	( 3,529,323 )
Gain on sale of real estate inventories	15, 28	( 2,909,714 )	( 3,620,250 )
Gain on sale of property and equipment	17, 28	( 997,997 )	( 379,225 )
Loss (gain) on sale of financial assets at FVPL	28	( 82,159 )	9,954,084
Operating loss before changes in assets and liabilities		( 455,429,551 )	( 260,425,504 )
Increase in insurance receivables		( 147,331,039 )	( 353,083,438 )
Decrease in loans and other receivables		160,996,970	640,836,023
Decrease in reinsurance assets		14,233,828	21,995,687
Increase in other assets		( 498,421,949 )	( 74,334,589 )
Increase in insurance contract liabilities		1,293,844,072	1,978,296,190
Increase in reserve for policyholders' dividends		5,739,121	16,963,128
Increase (decrease) in premium deposit funds		72,892,787	( 236,079,882 )
Decrease in insurance payables		( 33,510,135 )	( 247,359,658 )
Increase (decrease) in accounts payable and accrued expenses		( 101,586,271 )	218,350,579
Decrease in net pension liability		( 52,980,635 )	( 59,763,495 )
Decrease in other liabilities		( 322,929,601 )	( 132,584,920 )
Cash generated from (used in) operations		( 64,482,403 )	1,512,810,121
Cash paid for income taxes		( 59,433,913 )	( 31,512,112 )
Net Cash From (Used in) Operating Activities		( 123,916,316 )	1,481,298,009
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of:			
AFS financial assets	10	( 7,140,194,629 )	( 4,045,369,423 )
Financial assets at FVPL	9	( 1,713,221,055 )	( 3,154,217,057 )
Property and equipment	9	( 93,843,727 )	( 41,605,616 )
Investment in subsidiaries		( 65,373,594 )	-
Investment properties	16	( 57,519,905 )	( 84,625,576 )
Intangible assets	19	( 37,403,488 )	( 169,600 )
Proceeds from sale/maturities of:			
AFS financial assets	10	5,695,520,758	3,768,369,669
Financial assets at FVPL	10	1,989,687,214	1,670,258,261
Investment properties	16	74,559,516	81,252,843
Property and equipment	16	22,654,152	8,646,999
Real estate inventories	13	5,291,214	5,770,750
Interest received		1,009,927,703	943,090,660
Dividends received		109,752,584	105,680,467
Net Cash Used in Investing Activities		( 200,163,257 )	( 742,917,623 )
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>			
Repayment of lease liabilities	18	( 35,361,363 )	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		( 359,440,936 )	738,380,386
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		2,758,306,117	2,019,925,731
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		P 2,398,865,181	P 2,758,306,117

**Supplemental Information on Non-cash Activity -**

In 2019, the Company decided to fully write-off the remaining investments in Coconut Industry Investment Fund (CIIF) Oil Mills Companies and UCPB amounting to P6.3 billion. The Company adjusted this against the balance of deferred tax liabilities, reserve for fluctuation of AFS financial assets and directly to retained earnings amounting to P569.0 million, P5.1 billion and P604.2 million, respectively.

As of December 31, 2018, the Company already written off portion of the carrying amounts of its investments in CIIF Oil Mills Companies and UCPB amounting to P700.60 million which was adjusted against the balance of deferred tax liabilities and reserve for fluctuation of AFS financial assets amounting to P63.35 million and P570.12 million, respectively, and the remaining balance as impairment loss under general and administrative expense (see Note 10).

**UNITED COCONUT PLANTERS LIFE ASSURANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*



**1. CORPORATE INFORMATION**

**1.1 Incorporation and Operations**

United Coconut Planters Life Assurance Corporation (the Company) was incorporated on February 16, 1966 and is domiciled in the Republic of the Philippines. The Company was formed to undertake life insurance business, including accident and health insurance; to write insurance contracts providing for all risks, hazards, guarantees and contingencies to which life, accident or health insurance is applicable; to grant endowment and annuities; to issue insurance policies providing for participation or nonparticipation of profits; to reinsure all or part of the risks underwritten by the Company; to undertake all kinds of reinsurance to the extent allowed by the law; and, to act as agent or general agent of another insurance company.

The Company is wholly-owned by various Filipino individuals.

The Company has a Certificate of Authority No. 2019/88R issued by the Insurance Commission (IC) to transact in life insurance business until December 31, 2021.

The Company's registered office address, which is also its principal place of business, is at Cocolife Building, 6807 Ayala Avenue, Makati City.

As of December 31, 2019 and 2018, the Company's subsidiaries and an associate (all incorporated in the Philippines), effective percentage of ownership and the nature of the subsidiaries' businesses follow:

Company Name	Explanatory Notes	Percentage of Ownership
Subsidiaries:		
UCPB General Insurance Company, Inc. (UCPB GEN)	(a)	100%
Cocoplans, Inc. (Cocoplans)	(b)	100%
Ultra Security Services, Inc. (Ultra)	(c)	100%
Cocolife Asset Management Company, Inc. (CAMCI)	(d)	100%
Healthassist, Inc. (Healthassist)	(e)	100%
New Ultra Security Services, Inc. (New Ultra)	(c)	100%
Archipelago Motors Corporation (AMC)	(f)	54%
Associate –		
Direct Link Insurance Agency, Inc. (Direct Link)		45%

As of December 31, 2019 and 2018, the Company assessed that its investment in Cocoplans is partially impaired by P50.88 million and P211.48 million, respectively, resulting to accumulated allowance for impairment of P262.36 million and P211.48 million, respectively (see Note 14). As of December 31, 2018, the Company assessed that its investments in subsidiaries, namely, AMC and New Ultra are already fully impaired. Consequently, these investments were already written off in 2018.

Other relevant information about the subsidiaries' nature of businesses and their status of operations are discussed as follow:

- (a) UCPB GEN is engaged in the business of non-life insurance. The registered office address of UCPB GEN is located at 22<sup>nd</sup> Floor, One Corporate Center Condominium, Dona Julia Vargas Avenue, corner Meralco Avenue, Ortigas Center, San Antonio, Pasig City.
- (b) Cocoplans is engaged in pre-need business. The registered office address of Cocoplans is located at Cocolife Building, 6807 Ayala Avenue, Makati City.
- (c) Ultra and New Ultra are both engaged in providing security services. The registered office address of Ultra is located at F-48 Palm Tower Condominium, 7706 St. Paul Road, San Antonio Village, Makati City while the registered office address of New Ultra is at Cocolife Building, 6807 Ayala Avenue, Makati City.
- (d) CAMCI is mainly engaged in providing investment advice to customers. CAMCI's registered office address and principal place of business is located at Cocolife Building, 6807 Ayala Avenue, Makati City.
- (e) Healthassist provides total and integrated healthcare services, benefits management, technical and advisory services, and conducts special studies, seminars and other projects in healthcare. Healthassist's registered office address and principal place of business is located at 2<sup>nd</sup> Floor, Cocolife Building, 6807 Ayala Avenue, Makati City.
- (f) AMC is incorporated primarily to engage in the business of maintenance and repair of motor vehicles. The registered office address of AMC is located at 2724 Faraday corner Aragon Streets, San Isidro, Makati City.

## ***1.2 Approval of Financial Statements***

The financial statements of the Company as of and for the year ended December 31, 2019 (including the comparative financial statements as of the and for the year ended December 31, 2018) were authorized for issue by the Company's Board of Directors (BOD) on March 27, 2020.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

### ***2.1 Basis of Preparation of Financial Statements***

#### ***(a) Statement of Compliance with Philippine Financial Reporting Standards***

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income and expenses in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency, the currency of the primary economic environment in which the Company operates.

**2.2 Adoption of New and Amended PFRS**

(a) *Effective in 2019 that are Relevant to the Company*

The Company adopted for the first time the following new PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty Over Income Tax Treatments
Annual Improvements to PFRS (2015-2017 Cycle)		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends
PFRS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 and 11 (Amendments)	:	Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation

Discussed in the succeeding pages are the relevant information about these pronouncements.

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Company's financial statements.
- (ii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. The amendments clarify that the scope exclusion in PFRS 9, *Financial Instruments*, 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. The application of these amendments had no significant impact on the Company's financial statements.
- (iii) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Company has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard, where the amount of right-of-use assets and lease liabilities is the same as of January 1, 2019. The adoption of the standard has resulted in adjustments to the amounts recognized in the financial statements as at January 1, 2019, but has not resulted to any adjustment to the opening balance of Retained Earnings for the current period as the amount of right-of-use assets and lease liabilities is the same. Accordingly, comparative information were not restated.

The new accounting policies of the Company as a lessee are disclosed in Note 2.22.

Discussed below are the relevant information arising from the Company's adoption of PFRS 16 and how the related accounts are measured and presented on the Company's financial statements as at January 1, 2019.

- a. For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.
- b. The Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The Company's weighted average incremental borrowing rates applied to the lease liabilities on January 1, 2019 range from 6.55% to 7.26%.
- c. The Company has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Company also elected to measure the right-of-use assets at an amount equal to the lease liability as at January 1, 2019.
- d. For those leases previously accounted for as operating leases with a remaining lease term of less than 12 months, the Company has applied optional exemption to not recognize right-of-use assets but to account for the lease expense on a straight-line basis.
- e. The Company has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:
  - i. application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
  - ii. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, the Company has no onerous contracts; and,
  - iii. use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the statement of financial position as at January 1, 2019.

	Notes	Carrying Amount (PAS 17) December 31, 2018	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
<i>Assets –</i>				
Right-of-use - assets	c, e	P -	P 43,037,448	P 43,037,448
<i>Liabilities –</i>				
Lease liabilities	b, e	-	( 43,037,448 )	( 43,037,448 )
Impact on net assets		P -	P -	P -



A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 as at December 31, 2018 is shown below.

	<u>Notes</u>	
Operating lease commitments, December 31, 2018 (PAS 17)	36.1	P 72,424,711
Recognition exemption –		
Leases with remaining term of less than 12 months	2.2(iii)(d)	( 14,951,462)
Operating lease liabilities before discounting		57,473,249
Discount using incremental borrowing rate	2.2(iii)(b)	( 14,435,801)
Lease liabilities, January 1, 2019 (PFRS 16)	18.2	<u>P 43,037,448</u>

- (iv) IFRIC 23, *Uncertainty Over Income Tax Treatments*. This 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. The application of these amendments had no significant impact on the Company's financial statements.
- (v) Annual Improvements to PFRS 2015-2017 Cycle. 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 and 11 (Amendments), *Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

(b) *Effective Subsequent to 2019 but not Adopted Early*

There are 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 provision.

- (i) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaces PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e. financial asset at amortized costs, fair value through profit or loss (FVPL), and fair value through other comprehensive income (FVOCI);
  - an expected credit loss model in determining impairment of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management exercised the second option provided by the PFRS 4 (Amendments) effectively deferring the application of PFRS 9 (2014) to periods beyond January 1, 2018. Consequently, the Company continued to apply the existing financial instrument requirements of PAS 39.

- (ii) 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 payments of principal and interests” test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. This amendment has no significant impact in the financial statements since the Company still applies the existing financial requirements of PAS 39.
- (iii) PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of ‘material’ in PAS 1 by including the concept of ‘obscuring’ material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity’s own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term ‘material’ to ensure consistency. The application of these amendments has no significant impact on the Company’s financial statements.
- (iv) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The application of this revised conceptual framework has no significant impact on the Company’s financial statements.
- (v) PFRS 17, *Insurance Contracts* (effective from January 1, 2023). This new standard will eventually replace PFRS 4, *Insurance Contracts*. The IC, through its Circular Letter (CL) 2018-69, has deferred the implementation of PFRS 17 for life insurance and non-life insurance industry. PFRS 17 will set out the principles for the recognition, measurement, presentation and disclosure of insurance contracts within its scope.

This new standard requires a current measurement model where estimates are remeasured in each reporting period. Moreover, contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and,

- a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

In addition, the standard provides an optional, simplified premium allocation approach for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

A modification of the general measurement model called the variable fee approach is also introduced by PFRS 17 for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model

### ***2.3 Separate Financial Statements and Investments in Subsidiaries and an Associate***

These financial statements are prepared as the Company's separate financial statements. The Company also presents consolidated financial statements as required under PFRS.

Subsidiaries are entities (including structured entities) over which the Company has control. The Company controls an entity when (i) it has power over the entity, (ii) it is exposed, or has rights to, variable returns from its involvement with the entity, and, (iii) it has the ability to affect those returns through its power over the entity.

The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above.

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture.

The Company's investments in subsidiaries and an associate are accounted for in these separate financial statements at cost, less any impairment loss (see Note 2.15).

### ***2.4 Insurance Contracts***

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is significantly greater than the benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variables, provided in the case of non-financial variable that the variable is not specific to a party to the contract.

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 the period, unless all rights and obligations are extinguished or 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 and without Discretionary Participation Feature (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- which amount or timing is contractually at the discretion of the issuer; and,
- contractually based on the following:
  - performance of a specified pool of contracts or a specified type of contract; or,
  - realized 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.

The additional benefits include policy dividends that are declared annually, the amounts of which are computed using actuarial methods and assumptions, and are included under Policyholders' Dividends account in profit or loss with the corresponding liability recognized under the Reserve for Policyholders' Dividends account in the statement of financial position (see Note 2.7).

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately at FVPL. Bifurcation is not required if the embedded derivative itself is an insurance contract or when the host insurance contract itself is measured at FVPL. 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 internal investment fund meets the definition of an insurance contract and is not, therefore, accounted for separately from the host insurance contract.

## ***2.5 Reinsurance Contracts Held***

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more insurance contracts are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its insurance contracts held are recognized as Reinsurance Assets in the statement of financial position. These assets consist of short-term balances due from reinsurers, as well as long-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Liabilities arising from these contracts are primarily premiums payable and are recognized as an expense when due. These liabilities are presented under Insurance Payables account in the statement of financial position.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when objective evidence as a result of an event that occurred after initial recognition that the Company may not recover the outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. Any impairment loss determined is recognized in profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to the policyholders.

The Company also assumes reinsurance risk in the normal course of its business. Premiums and claims on assumed reinsurance are recognized as income and expense 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. The liabilities arising from these contracts are primarily claims and benefits payables and estimated in a manner consistent with the associated reinsurance contracts. These liabilities are presented under Insurance Payables account in the statement of financial position.

Gains or losses on buying reinsurance, if any, are recognized in profit or loss immediately at the date of purchase and are not amortized.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Assets or liabilities from these contracts are derecognized when the contractual right is extinguished or expired or when the contract is transferred to another party.

## **2.6 Insurance Contract Liabilities**

- (a) *Legal Policy Reserves* – Life insurance contract liabilities are recognized when the contracts are entered into and the premiums are recognized. These are determined by the Company's actuary in accordance with the requirements of the amended Insurance Code (the Insurance Code) and are calculated on the basis of a prudent prospective actuarial valuation method where the assumptions used depend in the operation of each life insurance product. These reserves represent the amounts which, together with future premiums and investment income, are required to discharge the obligations of the insurance contracts and to pay expenses related to the administration of those contracts. These reserves are determined using generally accepted actuarial practices and have been approved by the IC at the product approval stage.

Gross premium valuation (GPV) is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate provided by the IC. For this purpose, the expected future cash flows shall be determined using the best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation (MfAD) from the expected experience. The methods and assumptions shall be in accordance with the internationally accepted actuarial standards and consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines, which now considers other assumptions such as morbidity, lapse and/or persistency, non-guaranteed benefits and MfAD.

The changes in legal policy reserves for traditional life insurance policies are recognized as follow:

- (i) The increase or decrease in legal policy reserves in the current year due to other assumptions excluding change in discount rate will be recognized to profit or loss; and,
- (ii) Remeasurement on life insurance reserves due to changes in discount rates will be recognized in other comprehensive income (see Note 2.20).

- (b) *Insurance Contracts with Fixed and Guaranteed Terms* – A liability for contractual benefit expected to be incurred in the future is recorded when premiums are recognized. The liability is determined as the sum of the present value of future benefits and expenses less the present value of future gross premiums discounted at rates prescribed by the IC. Future cashflows are determined using best estimate assumptions with due regard to significant recent experience and appropriate MfAD from the expected experience.

The Company has different assumptions for different products. However, the reserves are computed to comply with the statutory requirements, wherein discount rates are based on risk-free discount rates and other assumptions such as mortality, disability, lapse, and expenses taken into account the Company's experience.

- (c) *Unit-linked Insurance Contracts* – A unit-linked insurance contract is an insurance contract linking payments to units of an internal investment fund set up by the Company with the consideration received from the policyholders. The investment funds supporting the linked policies are maintained in segregated accounts in conformity with Philippine laws and regulations. The liability for such contracts is the higher amount between the policyholder's investment fund balance and the minimum guaranteed amount stated in the policy contract.

Revenue from unit-linked insurance contracts consists of premiums received and policy administration fees.

The reserve for unit-linked liabilities is increased by additional deposits and changes in unit prices and decreased by policy administration fees, fund charges, mortality and surrender charges and any withdrawals. As at the reporting date, this reserve is computed on the basis of the number of units allocated to the policyholders multiplied by the unit price of the underlying investment funds.

- (d) *Liability Adequacy Test* – Liability adequacy tests are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against the Company's profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

## **2.7 Reserve for Policyholders' Dividends**

DPF is a contractual right that gives policyholders the right to receive supplementary discretionary returns through participation in the surplus arising from participating business. These returns are subject to the discretion of the Company and are within the constraints of the terms and conditions of the contract.

For group commercial and farmers' lines, the Company sets up the policyholders' dividends due and accrued for all groups which have participating feature based on the agreed experience refund formula and an assessment of each individual group's prospective cash flows and operating results. For individual policyholders, all dividends due and accrued are carried for participating policies using an estimated dividend scale expected to be declared based on the Company's profit emergence for the individual line.

## **2.8 Insurance Receivables and Payables**

Receivables and payables are recognized when due. Insurance receivables and payables include amounts due from agents and policyholders and amounts due to reinsurers. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes the impairment loss in profit or loss.

## **2.9 Premium Deposit Funds (PDF)**

PDF represents fund which will be used for payment of any unpaid premiums under the policy. The fund earns interest of 6.00% and 3.00% per annum for old PDF and new PDF, respectively, which is credited to the fund. The accumulated fund shall not exceed the total future premium payments under the policy.

The PDF includes Fund Builder Rider which represents fund used to pay future premiums of the policy. This has peso and dollar fund where the interest on the fund shall be based on the interest rate prevailing in the market.

## **2.10 Financial Assets**

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

### **(a) Classification, Measurement and Reclassification of Financial Assets**

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets, except for equity securities, are recognized on their settlement date. Equity securities are recognized on trade date – the date that the Company becomes a party to the contractual provisions of the instrument. Trade date accounting refers to: (a) the recognition of an asset to be received and the liability to pay for it on the trade date; and, (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

All financial assets that are not classified as at FVPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the financial assets applicable to the Company is discussed in the succeeding pages.



(i) *Financial Assets at FVPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at FVPL upon initial recognition. Financial assets are allowed to be designated by management on initial recognition in this category when the following criteria are met:

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

All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVPL) may be reclassified out of FVPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Insurance Receivables, Loans and Other Receivables, Accrued Income, Reinsurance Assets, and Lease and leasehold deposits and Refundable deposits (under Other Assets account) in the statement of financial position.

Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(iii) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Company's AFS financial assets include equity securities, corporate and government debt securities.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as Reserve for Fluctuation on AFS Financial Assets account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

(b) *Impairment of Financial Assets*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Company recognizes impairment loss based on the category of financial assets as shown below and in the succeeding page:

(i) *Carried at Amortized Cost – Loans and Receivables*

If there is objective evidence that an impairment loss on loans and receivables carried at cost has been incurred, the amount of the impairment loss is determined 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 or current effective interest rate (EIR) determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the profit or loss.

(ii) *Carried at Cost – AFS Financial Assets*

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(iii) *Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Reserve for fluctuation on AFS financial asset account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that is debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) *Items of Income and Expense Related to Financial Assets*

All income and expenses, except for impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Investment Income or Investment Expenses account in the statement of comprehensive income. Impairment losses are presented as part of General and Administrative Expenses account in the statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) *Derecognition of Financial Assets*

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.

### ***2.11 Property and Equipment***

Property and equipment, except for land, are carried at acquisition cost less accumulated depreciation and amortization, and any impairment in value. Land is carried at cost less any impairment losses.

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, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred. Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Buildings	10 years
Transportation equipment	5 years
Office furniture, fixtures and equipment	5 years

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements of five to 10 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.24).

The residual values, estimated useful lives, and method of depreciation and amortization of property and equipment (except land) are reviewed and adjusted if appropriate, at the end of each reporting period.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use, at which time, the cost and the related accumulated depreciation and amortization are written off.

An item of property and equipment, including the related accumulated depreciation, amortization and impairment losses, 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 profit or loss in the year the item is derecognized.

### ***2.12 Real Estate Inventories***

Real estate inventories consist of columbarium units. These are carried at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost includes acquisition costs of columbarium units and those costs incurred for the development and improvement of the properties.

### ***2.13 Investment Properties***

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at acquisition cost which comprise its purchase price and directly attributable cost incurred. These include parcels of land, and buildings and related improvements acquired by the Company which are not held for sale in the next 12 months. Subsequently, investment properties are accounted for using the cost model. Except for land, investment properties are carried at cost less accumulated depreciation and impairment in value.

Depreciation is computed using the straight-line method over its estimated useful life of 20 years.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner occupancy, commencement of an operating lease to another party or ending of construction or development.

Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupancy or commencement of development with a view to sell.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

#### ***2.14 Intangible Assets***

Intangible assets pertain to the Company's computer software. Costs incurred to acquire computer software (not an integral part of its related hardware) and bring it to its intended use are capitalized. These costs are amortized over their estimated useful lives ranging from three to five years. Cost directly associated with the development of identifiable computer software that generate expected future benefits to the Company are recognized. All other costs of developing and maintaining computer software are recognized as expense when incurred.

Gains or losses arising from the derecognition of the computer software are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss.

#### ***2.15 Investments in Subsidiaries and an Associate***

A subsidiary is an entity over which the Company has control. There is control when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect returns through its power over the entity.

Following the provisions of PAS 27, *Separate Financial Statements*, on the preparation of separate financial statements, investments in subsidiaries are accounted for at cost, less any impairment in value. The Company recognizes income from the investments in subsidiaries and an associate only to the extent that the Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a return of investment and are recognized as a reduction from the cost of the investment.

An associate, on the other hand, pertains to an entity over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. If the holding is less than 20%, the entity will be presumed not to have significant influence unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence. The Company's investment in an associate is measured at cost, less any impairment in value. Dividend income from the associate is recognized when declared from the accumulated profits of the investee.

Cost of investments in subsidiaries and associate includes the purchase price and other costs directly attributable to the acquisition of the investment such as professional fees for legal services, transfer taxes and other transaction costs. This includes any excess of the cost of the acquisition over the fair value of identifiable net assets of a subsidiary or an associate at the date of acquisition.

Investments in subsidiaries and an associate are derecognized upon sale or loss of control or influence over the subsidiaries or an associate. Any gain or loss arising from derecognition is recognized in profit or loss. Gain or loss is computed as the difference between the proceeds from the disposal and its carrying amount at the date of disposal.

#### ***2.16 Other Assets***

Other assets pertain to assets controlled by the Company as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

#### ***2.17 Financial Liabilities***

Financial liabilities which include Policy and contract claims (under Insurance Contract Liabilities account), Reserve for Policyholders' Dividends, Premium Deposit Funds, Insurance Payables, Accounts Payable and Accrued Expenses, and Other Liabilities (except tax-related payables) are recognized when the Company becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of comprehensive income under the caption Investment Expenses.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

### ***2.18 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 set-off 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.

### ***2.19 Provisions and Contingencies***

Provisions are recognized when present obligations 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 obligation that has resulted from past events (e.g., legal dispute or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the 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, at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessment and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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. Similarly, possible 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. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### ***2.20 Equity***

Capital stock represents the nominal value of shares that have been issued.

Contributed surplus pertains to additional cash contribution by the Company's stockholders, which will be converted to capital stock, to provide an adequate capital in accordance with the requirement of the IC.

Reserve for fluctuation of AFS financial assets pertains to cumulative mark-to-market valuation of outstanding AFS financial assets.

Reserve for net pension liability refers to accumulated actuarial losses, net of gains, as a result of remeasurements of post-employment defined benefit plan and return on plan assets (excluding amount included in net interest).

The calculation of the EIR includes all fees, transaction costs, and discounts or premiums that are an integral part of the EIR. Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset.

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

*Dividend Income.* Dividend income is recognized when the shareholder's right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

*Rental Income.* Rental income from investment properties is recognized on a straight-line basis over the lease term.

*Gain (Loss) on Sale of Financial Assets at FVPL.* Gain (loss) on sale of financial assets at FVPL is calculated as the difference between net sales proceeds and the current fair value at the date of sale. Gain (loss) on the sale of financial assets at FVPL is recognized in profit or loss when the sale transaction occurred.

*Fair Value Gain (Loss) on Financial Assets at FVPL.* Fair value gains and losses from the changes in the market values of financial assets at FVPL are recognized in profit or loss at the end of the reporting period.

*Gain (Loss) on Sale of AFS Financial Assets.* Gain (loss) on the sale of AFS financial assets is calculated as the difference between net sales proceeds and acquisition cost less any impairment in value. Gain (loss) on the sale of AFS financial assets is recognized in profit or loss when the sale transaction occurred.

*Gain (Loss) on Sale of Loans and Other Receivables.* Gain (loss) on sale of loans and receivables is calculated as the difference between the net sales proceeds and amortized cost. Gain (loss) on sale of loans and other receivables is recognized in profit or loss when the sales transaction occurred.

*Gain (Loss) on Sale of Real Estate Inventories.* Revenue from the sale of real estate inventory is measured at the fair value of the consideration received or receivable less the cost of real estate inventory at the date of sale. Revenues from transactions covering sale of real estate inventories are recognized under the full accrual method. Under this method, the Company recognizes the revenue and cost from sale of real estate in full when 10% or more of the contract price is received at which point the buyer has already an equity over the real estate asset and may already occupy and use the property.

The collections relating to sale of real estate inventories which do not meet the collection threshold or full accrual recognition criteria is presented as Others as part of Other liabilities account in the statement of financial position.

- (c) *Service Fees* – Insurance contracts of the policyholders are charged for policy administration services, surrenders and other contract fees. Fees such as withdrawal fee, cancellation fee and policy fee are recognized at point in time.



- (d) *Other Income* – Income from other sources is recognized when earned.

The Company also earns other income from reinstatement fees, which is recognized as income once the Company performed the service. These are accounted for by the Company in accordance with PFRS 15, *Revenue from Contracts with Customers*.

- (e) *Net Insurance Benefits and Claims* – The Company's net benefits and claims consist of gross benefits and claims, reinsurers' share on benefits and claims, gross change in insurance contract liabilities and reinsurers' share on gross change in insurance contract liabilities.

*Gross Benefits and Claims.* Gross benefits and claims of the policyholders include excess benefit claims for unit-linked contracts. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

*Reinsurers' Share on Benefits and Claims.* Reinsurers' share on benefits and claims pertain to the amount recoverable from reinsurers for recognized claims during the year. These are accounted for when the corresponding claims are recognized.

*Gross Change in Insurance Contract Liabilities.* Gross change in insurance contract liabilities represents the change in the valuation of legal policy reserves under Insurance Contract Liabilities account in the statement of financial position.

*Reinsurers' Share on Gross Change in Insurance Contract Liabilities.* Reinsurers' share on gross change in insurance contract liabilities pertain to the reinsurers' share in the change of legal policy reserves. These are accounted for in the same period as the corresponding change in insurance contract liabilities.

- (f) *Operating and Administrative Expenses* – Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when incurred.

*General and Administrative Expenses.* General and administrative expenses, underwriting expenses and other investment expenses, except for lease agreements, are recognized as expense as they are incurred.

*Commissions.* Commissions are recognized when the insurance contracts are entered into and the related premiums are recognized.

*Investment expenses.* Investment expenses pertain to the interest incurred by the Company in relation to the funds received intended for the Company's loan financing facility which is recorded as investment accounts payable under Accounts Payable and Accrued Expenses account in the statement of financial position. These are accounted for over the term of the underlying investment accounts payable (see Note 27).

*Premium Refund.* This pertains to the refunded amount by the Company when after payment of premiums by the policyholder, the Company cancels or declines the insurance application. This may also pertain to the refund of payments received in excess of the amount billed. The amount is recognized when the refund to the policyholder takes place.

*Insurance Taxes.* These pertain to the amount of premiums and documentary stamps taxes issued for in-force policies that are recognized when incurred.

## 2.22 Leases

The Company accounts for its leases as follows:

(a) *Company as Lessee*

(i) *Accounting for Leases in Accordance with PFRS 16 (2019)*

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.24)

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from property and equipment and other liabilities, respectively

*(ii) Accounting for Leases in Accordance with PAS 17 (2018)*

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 (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs, maintenance and insurance, are expensed as incurred.

*(b) Company as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**2.23 Foreign Currency Transactions and Translations**

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss section of the statement of comprehensive income.

**2.24 Impairment of Non-financial Assets**

The Company's investments in subsidiaries and an associate, investment properties, property and equipment, right-of-use assets, and intangible assets are subject to impairment testing. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value, reflecting market conditions, less costs to sell and value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

### ***2.25 Employee Benefits***

The Company's employment benefits to employees are as follows:

#### *(a) Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset and is included as part of Investment Expense or Investment Income account in the statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity, such as the Social Security System. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

## **2.26 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal 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 profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the 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 tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and deferred tax 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 end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

### ***2.27 Related Party Transactions and Relationships***

Related party transactions are transfers of resources, services or obligations between the Company and its related parties.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; (c) 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; and, (d) the Company's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

### ***2.28 Events After the End of the Reporting Period***

Any post-year-end event that provides additional information about the Company's position at the statement of financial position date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

## **3. SUMMARY OF ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the 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 the circumstances. Actual results may ultimately differ from these estimates.

### ***3.1 Critical Management 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:

#### ***(a) Determination of Lease Term of Contracts with Renewal and Termination Options (2019)***

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For the lease of offices, the factors that are normally the most relevant are (a) if there are significant penalties should the Company pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Company is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised or not exercised or the Company becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company.

#### ***(b) Product Classification***

The Company has determined that the unit-linked insurance policies it issues that link the payments on the contract to units of internal investment funds has significant insurance risk and therefore meets the definition of an insurance contract and should be accounted for as such.

(c) *Impairment of AFS Financial Assets*

The Company considers that financial assets at fair value are impaired when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Company evaluates other factors, including normal volatility in share price for quoted securities and the future cash flows and the discount factors for unquoted securities. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Based on the recent evaluation of information and circumstance affecting the Company's AFS financial assets, management concluded that certain AFS financial assets are impaired as at December 31, 2019 and 2018 (see Note 10). Consequently, in 2019, the management had fully written-off the remaining balance of its investments in Coconut Industry Investment Fund (CIIF) Oil Mills Companies and United Coconut Planters Bank (UCPB) common shares amounting to P6,304.30 million. This was charged against the balance of Deferred tax liabilities, Reserve for fluctuations of AFS financial assets and Retained earnings amounting to P569.04 million, P5,131.06 million and P604.20 million, respectively. As of December 31, 2018, management has initially written-off portion of the carrying amount of its investments in CIIF Oil Mills Companies (collectively referred to as CIIF-OMG) and UCPB common shares amounting to P700.60 million which was adjusted against the balance of deferred tax liabilities, reserve for fluctuation of AFS financial assets and impairment loss amounting to P63.35 million, P570.12 million, and P67.13 million, respectively (see Note 31).

Management further assessed that its investments in UCPB preferred shares with a carrying amount of P100.00 million, as of December 31, 2019, are already impaired in light of the recent developments in the ownership of CIIF-OMG and UCPB. In addition, the Company assessed that various equity investments amounting to P1,030.70 million are also impaired, due to the significant and prolonged decline of the market price of those equity shares. However, management adjusted these impairment losses directly against the opening balance of Retained Earnings account as management believes that these investments were already impaired in prior years due to persistent fair value losses incurred from these investments (see Note 10).

(d) *Classification of Financial Instruments*

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position. In addition, the Company classifies assets by evaluating among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.



(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.19 and disclosures on relevant provisions and contingencies are presented in Note 36.

(f) *Distinction Between Operating and Finance Leases where the Company is the Lessor*

The Company has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(g) *Going Concern Assumption*

When preparing financial statements, the management shall make an assessment of the Company's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. When management is aware in making its assessment of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The degree of consideration depends on the facts in each case.

The management believes that the Company will continue as a going concern entity despite the fact that it is in the process of building up its capital after the write-off made in 2019 and 2018 in order to meet certain regulatory requirements of the IC.

### **3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Legal Policy Reserves*

Legal policy reserves represent estimates of present value of future benefits and expenses in excess of present value of future gross premiums. These estimates are based on interest rates, mortality/morbidity tables, lapses and valuation method subject to the provisions of the Code and guidelines set by the IC.

The liability for life insurance contracts uses the discount rate as provided by the IC with other assumptions based on best estimate with regard to significant recent experience and appropriate MfAD from the expected experience. At each reporting date, these estimates are reassessed for adequacy and changes will be reflected in adjustments to the liability. The main assumptions used relate to mortality, morbidity, lapse, and discount rate.

For life insurance contracts, estimates are made as to the expected number of deaths and lapses for each of the years in which the Company is exposed to risk. The Company uses mortality tables and lapse rates subject to the guidelines set by the IC as the basis of these estimates. The estimated number of lapses, deaths, illness or injury determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future premiums.

The carrying value of the legal policy reserves, shown as part of Insurance Contract Liabilities account in the statements of financial position, amounted to P15,114.06 million and P13,214.04 million of December 31, 2019 and 2018, respectively (see Note 21).

(b) *Liabilities Arising from Claims made under Insurance Contracts*

There are several sources of uncertainty that need to be considered in the estimation of the liability that the Company will ultimately pay for such claims. Although the ultimate liability arising from life insurance contracts is largely determined by the face amount of each individual policy, the Company also issues accident and health policies and riders where the claim amounts may vary. Claims estimation by the Company considers many factors such as industry average mortality and morbidity experience, with adjustments to reflect Company's historical experience. These liabilities form part of the Company's incurred but not reported (IBNR) claims which is included in Policy and contract claims account under Insurance Contract Liabilities in the statements of financial position. The IBNR recognized by the Company amounted to P1,038.30 million and P804.08 million as at December 31, 2019 and 2018, respectively (see Note 21).

(c) *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Company's financial assets at FVPL and AFS financial assets and the amounts of fair value changes recognized on those assets are disclosed in Notes 9 and 10, respectively.

(d) *Impairment of Financial Assets at Amortized Cost*

The Company reviews its financial assets at amortized cost at each reporting date to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The level of this allowance is evaluated by management on the basis of factor that affects the collectibility of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of financial assets, and identifies accounts that are to be provided with allowance on a regular basis.

In addition to specific allowance against individually significant financial assets, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loans, receivables, and investments since it was granted or acquired.

These internal ratings take into consideration factors such as concentration risks, identified structural weaknesses and deterioration in cash flows. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Provision for impairment losses on loans and other receivables amounted to P14.42 million and P60.29 million in 2019 and 2018, respectively, which are presented as part of Impairment losses under General and Administrative Expenses account in the statements of comprehensive income (see Note 31). The Company's insurance receivables, AFS financial assets, loans and other receivables, and accrued income, net of allowance for impairment losses are presented in Notes 8, 10, 11, and 12, respectively.

(e) *NRV of Real Estate Inventories*

The Company reviews real estate inventories for probable impairment in value. Management's judgment in determining if the real estate inventories are impaired is based on the assessment of the asset's estimated net selling price.

Estimated selling price is derived for publicly available market data and historical experience, while estimated cost of disposal are basically commission expense based on historical experience.

As indicated in Note 15, management assessed that the respective net realizable values of the Company's real estate inventories are higher than their respective costs.

(f) *Estimation of Useful Lives of Investment Properties, Property and Equipment, Right-of-Use Assets and Intangible Assets*

The Company estimates the useful lives of investment properties, property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets 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 the assets. For the right-of-use assets, the Company bases the useful lives on the lease terms agreed upon in each lease contract. Based on management's assessment as of December 31, 2019 and 2018, there is no change in the estimated useful lives of those assets during those years.

Analyses of the carrying amounts of investment properties, property and equipment, right-of-use assets and intangible assets are presented in Notes 16, 17, 18 and 19, respectively. Actual results, however, may vary due to changes in factors mentioned above.

(g) *Impairment of Investments in Subsidiaries and an Associate*

The Company assesses impairment on its investments in subsidiaries and an associate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Company considers important which could trigger an impairment review on its investments in subsidiaries and an associate include the following:

- deteriorating or poor financial condition;
- recurring net losses; and,
- significant changes (i.e., technological, market, economic, or legal environment in which the subsidiary and associate operates) with an adverse effect on the subsidiary or associate have taken place during the period, or will take place in the near future.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's fair value less cost to sell, which considers the estimated realizable and settlement amounts of the assets and liabilities of the subsidiary or associate.

The carrying value of the Company's investments in subsidiaries and an associate are disclosed in Note 14. Based on management's assessment, the Company's investments in subsidiaries and an associate is impaired by P50.88 million and P227.67 million as of December 31, 2019 and 2018, respectively, which was directly charged against Retained Earnings account instead of recognizing an impairment loss in the 2019 and 2018 profit or loss.

(h) *Impairment of Non-financial Assets (Other than Investment in Subsidiaries and an Associate)*

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and,
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for cash-generating unit to which the asset belongs.

No impairment losses were necessary to be recognized on the Company's investment properties, property and equipment, intangible assets, right-of-use assets and other non-financial assets in 2019 and 2018, based on management's assessment (see Notes 16, 17, 18, and 19).

(i) *Determination of Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of 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 tax asset to be utilized. Management identified certain deferred tax assets that should be unrecognized. On the other hand, management assessed that the deferred tax assets recognized as at December 31, 2019 and 2018 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 33.

(j) *Valuation of Post-employment Defined Benefit*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by an independent actuary in calculating such amounts. Those assumptions are described in Note 32.2 and include, among others, discount rates, salary increase rate and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss, and the carrying amount of the post-employment obligation in the next reporting period.

The Company determines the appropriate discount rate at the end of each year. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related pension liability.

Other key assumptions for retirement benefit obligation are based in part on current market conditions. While it is believed that the Company's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Company's obligation

#### 4. **RISK MANAGEMENT OBJECTIVES AND POLICIES**

Risks are inherent in the business activities of the Company. Among its identified risks are insurance risk, investment risk, credit risk, liquidity risk and market risk. These are managed through a risk management framework and governance structure that provides comprehensive controls and management of major risks on an ongoing basis.

Risk management is the process by which the Company identifies its key risks, obtains consistent and understandable risk measures, decides which risks to take on or reduce and how this will be done, and establishes procedures for monitoring the resultant risk positions. The objective of risk management is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives including failing to exploit opportunities. The Company recognizes the critical importance of having efficient and effective risk management systems in place.

#### **4.1 Risk Management Structure and Strategies**

The Company has established a risk management function with clear terms of reference for the Company's BOD, its committees and the associated executive management committees. Further, a clear organizational structure with documented delegated authorities and responsibilities from the Company's BOD to executive management committees and senior managers has been developed. Lastly, a policy framework which sets out the risk appetite of the Company, risk management, control and business conduct standards for the Company's operations has been put in place. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the Company.

The BOD has approved the Company's risk management policies and meets monthly to approve on any commercial, regulatory and own organization requirements in such policies. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirement.

#### **4.2 Insurance Risk**

The risk under an insurance contract that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefits payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims and actual benefits paid are greater than originally estimated.

The Company principally writes life insurance where the life of policyholder is insured against death, illness, injury or permanent disability, usually for pre-determined amount.

Life insurance contracts offered by the Company mainly include whole life insurance, term insurance, endowments, unit-linked products, group, and accident and health insurance.

- Whole life insurance and term insurance are conventional products where lump sum benefits are payable upon death of the insured.
- Endowment products are investments/savings products where lump sum benefits are payable after a fixed period or on death before the fixed term is completed.
- Unit-linked products differ from conventional policies. In unit-linked products, a guaranteed percentage of each premium is allocated to units in a pooled investment fund and the policyholder benefits directly from the total investment growth and income of the fund.
- Group life insurance covers a defined group of people insured by the employer under a master policy agreement that is normally issued on a yearly renewable term.
- Accident and health insurance covers payment of hospital and medical expenses when sickness, accidental injury, or accidental death happened to the insured.

The main risks the Company is exposed to include:

- Mortality Risk - risk of loss arising from policyholder death experience being different than expected.
- Morbidity Risk - risk of loss arising from policyholder health experience being different than expected.

- Expense Risk - risk of loss arising from expense experience being different than expected.
- Policyholder Decision Risk - risk of loss arising from policyholder experience (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location of the risk insured, type of risk insured and by industry insured by the Company. Undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company's underwriting strategy is designated to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting strategy is in place to enforce appropriate risk selection criteria.

There has been no change to the Company's exposure to insurance risks or the manner in which it manages and measures the risks since prior reporting period.

*Concentration of Insurance Risk*

The table below sets out the Company's concentration of insurance risk based on the sum assured:

	2019		2018	
	Number of Policies	Sum Assured	Number of Policies	Sum Assured
Group life	439,735	P 470,264,049,086	440,423	P 397,445,491,993
Endowment	51,027	13,103,805,394	13,225	14,609,784,684
Whole life	22,957	7,833,242,471	23,559	7,996,833,723
Accident and health	13,489	97,758,158,065	56,878	91,674,365,493
Term	11,721	2,878,047,010	12,103	3,004,418,118
Variable/unit-linked	11,627	10,165,321,299	9,604	9,252,126,703
	<u>550,556</u>	<u>P 602,002,623,325</u>	<u>555,792</u>	<u>P 523,983,020,714</u>

The table below sets out the concentration of life insurance liabilities by type of contract, at gross and net of reinsurance (see Notes 13 and 21).

	2019			2018		
	Gross Legal Policy Reserves	Reinsurers' Share on Liabilities	Net Legal Policy Reserves	Gross Legal Policy Reserves	Reinsurers' Share on Liabilities	Net Legal Policy Reserves
Variable life	P 6,127,422,010	P -	P 6,127,422,010	P 5,520,286,967	P -	P 5,520,286,967
Endowment	4,444,519,928 (	849,952)	4,443,669,976	3,706,002,580 (	843,519)	3,705,159,061
Whole life	2,559,354,059 (	3,262,321)	2,556,091,738	2,302,141,689 (	3,237,629)	2,298,904,060
Accident and health	1,010,276,860 (	3,106)	1,010,273,754	789,544,671 (	3,083)	789,541,588
Group life	717,330,684	-	717,330,684	681,697,377	-	681,697,377
Term	255,152,388 (	977,215)	254,175,173	214,368,708 (	969,817)	213,398,891
	<u>P 15,114,055,929</u>	<u>(P 5,092,594)</u>	<u>P 15,108,963,335</u>	<u>P 13,214,041,992</u>	<u>(P 5,054,048)</u>	<u>P 13,208,987,944</u>

The tables below set out the concentration of life insurance liabilities with and without DPF, at gross and net of reinsurance (see Notes 13 and 21).

	Gross Legal Policy Reserves	Reinsurers' Share on Liabilities	Net Policy Reserves
<b>2019</b>			
With fixed and guaranteed terms			
Fixed and guaranteed – non-participating	P 6,684,439,056	(P 2,681,174)	P 6,681,757,882
Partially fixed and guaranteed – participating	2,302,194,863	( 2,411,420)	2,299,783,443
Unit-linked	<u>6,127,422,010</u>	<u>-</u>	<u>6,127,422,010</u>
Total insurance liabilities	<u>P 15,114,055,929</u>	<u>(P 5,092,594)</u>	<u>P 15,108,963,335</u>
<b>2018</b>			
With fixed and guaranteed terms			
Fixed and guaranteed – non-participating	P 5,705,071,174	(P 2,660,881)	P 5,702,410,293
Partially fixed and guaranteed – participating	1,988,683,851	( 2,393,167)	1,986,290,684
Unit-linked	<u>5,520,286,967</u>	<u>-</u>	<u>5,520,286,967</u>
Total insurance liabilities	<u>P 13,214,041,992</u>	<u>(P 5,054,048)</u>	<u>P 13,208,987,944</u>

*Classification by Attained Age (Based on 2019 and 2018 Data of In-force Policies)*

The tables below present the concentration of risk by attained age on whole life, endowment, term insurance policy contracts and variable/unit-linked. For individual insurance, exposure is concentrated on age brackets 40-44 to 50-54 and those below 20.

Attained Age	Gross of Reinsurance		Net Reinsurance	
	Exposure	Concentration (%)	Exposure	Concentration (%)
<b>2019</b>				
<20	P 4,108,044,852	12.10	P 3,931,605,103	12.5
20 - 24	2,395,472,891	7.0	2,303,538,125	7.3
25 - 29	3,750,290,192	11.0	3,603,393,670	11.5
30 - 34	4,386,786,358	12.9	4,160,249,552	13.2
35 - 39	4,520,686,511	13.3	4,129,645,833	13.1
40 - 44	4,180,039,980	12.3	3,682,860,918	11.7
45 - 49	3,432,307,506	10.1	3,108,733,161	9.9
50 - 54	2,692,293,872	7.9	2,377,321,345	7.6
55 - 59	2,141,923,415	6.3	1,968,924,803	6.3
60 - 64	1,235,090,978	3.6	1,095,080,889	3.5
65 - 69	759,173,669	2.2	701,982,819	2.2
70 - 74	255,530,909	0.8	233,280,075	0.7
75 - 79	93,681,540	0.3	85,729,609	0.3
80+	<u>29,093,501</u>	<u>0.1</u>	<u>28,295,634</u>	<u>0.1</u>
	<u>P 33,980,416,174</u>	<u>100.00</u>	<u>P 31,410,641,536</u>	<u>100.00</u>
<b>2018</b>				
<20	P 4,144,879,638	11.90	P 4,012,777,400	12.40
20 - 24	2,550,730,751	7.30	2,462,938,827	7.60
25 - 29	4,181,710,199	12.00	4,037,585,103	12.40
30 - 34	4,704,938,076	13.40	4,437,273,972	13.70
35 - 39	4,607,010,438	13.20	4,232,425,335	13.00
40 - 44	4,061,695,560	11.70	3,592,186,517	11.10
45 - 49	3,601,709,312	10.30	3,296,047,932	10.20
50 - 54	2,645,614,115	7.60	2,353,297,086	7.30
55 - 59	2,202,423,086	6.30	1,997,694,769	6.20
60 - 64	1,115,025,725	3.20	1,012,958,233	3.10
65 - 69	719,856,200	2.10	666,892,476	2.10
70 - 74	227,567,382	0.70	206,277,044	0.60
75 - 79	76,999,892	0.20	71,387,439	0.20
80+	<u>23,002,854</u>	<u>0.10</u>	<u>22,183,944</u>	<u>0.10</u>
	<u>P 34,863,163,228</u>	<u>100.00</u>	<u>P 32,401,926,077</u>	<u>100.00</u>



The table below presents the concentration of risk by business type for group insurance.

Business Type	2019		2018	
	Net Reinsurance		Net Reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
Employer-employee/ association benefit	P 127,712,919	27.16	P 175,025,960	43.93
Credit life insurance	204,868,324	43.56	126,192,254	31.68
Compulsory migrant workers insurance	91,952,938	19.55	47,328,835	12.10
Microinsurance	-	-	28,907,273	7.26
Reinsurance	2,186,830	0.47	16,348,417	4.12
Coconut farmers insurance	27,613,031	5.87	2,193,310	0.55
Personal accident	14,555,365	3.10	-	-
Pre-need planholders	1,374,642	0.29	1,449,443	0.36
	<b>P 470,264,049</b>	<b>100.00</b>	<b>P 397,445,492</b>	<b>100.00</b>

The table below presents the concentration of risk by industry type for accident and health insurance.

Industry Type	2019		2018	
	Net Reinsurance		Net Reinsurance	
	Exposure '000	Concentration (%)	Exposure '000	Concentration (%)
I. Accident	<b>P 88,065,323</b>	<b>100.00</b>	<b>P 87,243,423</b>	<b>100.00</b>
II. Health				
Business process				
outsourcing	3,951,525	40.77	606,077	13.68
Government agencies	1,997,365	20.61	1,918,030	43.29
Services/distribution	1,528,265	15.77	618,075	13.95
Shipping	682,250	7.04	555,415	12.53
Manufacturing	558,620	5.76	354,070	7.99
Real estate	425,660	4.39	43,965	0.99
Banking/ financials	233,420	2.41	156,800	3.54
Learning institutions	126,375	1.30	104,840	2.37
Non-profit associations	106,515	1.10	63,530	1.43
Hotel	82,840	0.85	10,140	0.23
	<b>9,692,835</b>	<b>100.00</b>	<b>4,430,942</b>	<b>100.00</b>
	<b>P 97,758,158</b>	<b>100.00</b>	<b>P 91,674,365</b>	<b>100.00</b>

*Source of Uncertainty in the Estimation of Future Claim Payment*

Estimation of future payments and premium receipts is subject to unpredictability of changes in mortality and morbidity levels. The Company adopts standard industry data in assessing future benefit payments and premium receipts as approved by IC.

Adjustments are made, if necessary, according to the experience of the Company.

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

The liability for these contracts comprises the IBNR provision and a provision for unexpired risk at the end of reporting period. The IBNR provision is based on historical experience and is subject to a degree of uncertainty.

#### *Key Assumptions*

Material judgment is required in determining the liabilities and in the choice of assumptions relating to insurance contracts. Assumptions are based on past experience, current internal data and conditions and external market indices and benchmarks, which reflect current observable market prices and other published information. Such assumptions are determined as appropriate at inception of the contract and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Assumptions are subject to the provisions of the Insurance Code and guidelines set by IC.

For insurance contracts, the Company determines the assumptions in relation to future deaths, illness or injury and investment returns at inception of the contract. Subsequently, new estimates are developed at each reporting date and liabilities are tested to determine whether such liabilities are adequate in the light of the latest current estimates. The initial assumptions are not altered if the liabilities are considered adequate. If the liabilities are not adequate, assumptions are altered to reflect the latest current estimates. As a result, the effect of changes in the underlying variables on insurance liabilities and related assets is not symmetrical. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant deteriorations in estimates have an impact.

The key assumptions to which the estimation and adequacy testing of liabilities are particularly sensitive are as follows:

- *Mortality and Morbidity Rates*

Assumptions are based on standard industry and national mortality and morbidity tables, according to the type of contract written and which may be adjusted where appropriate to reflect the Company's own experience. Assumptions are differentiated by age, underwriting class and contract type.

An increase in mortality and morbidity rates would lead to a larger number of claims and claims occurring sooner than anticipated, increasing the expenditure and generally reducing profits for the shareholders.

- *Discount Rate*

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. The weighted average rate of return is derived based on model portfolio that is assumed to back up liabilities, consistent with the long-term assets allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments. Interest rates used for estimating liabilities is approved by the Insurance Commissioner.

An increase in investment return would lead to an increase in profits for the shareholders. A decrease in the discount rate will increase the value of the liability. As required by the Insurance Code, lapse, surrender and expense assumptions are not factored in the computation of the insurance contract liabilities.

As part of the Company's investment strategy, in order to reduce both insurance and financial risks, the Company matches its investments to the liabilities arising from insurance, by reference to the type of benefits payable to the policyholders.

The analysis on the succeeding page is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on liabilities, income before tax and equity. The correlation of variables will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis. It should be noted that movements in these variables are nonlinear.

<u>Increase (Decrease)</u>	<u>Mortality/Morbidity</u>		<u>Discount Rate</u>	
	<u>110% of Original Mortality Table</u>	<u>90% of Original Mortality Table</u>	<u>Original Valuation Interest Rate +1%</u>	<u>Original Valuation Interest Rate -1%</u>
<b>2019</b>				
Net liabilities	P 241,141,686	(P 244,509,702)	(P 823,023,407)	P1,028,026,524
Income before tax	( 241,141,686)	244,509,702	823,023,407	( 1,028,026,524)
Equity	( 168,799,180)	171,156,792	576,116,385	( 719,618,567)
<b>2018</b>				
Net liabilities	P 181,418,393	(P 204,320,174)	(P 697,528,898)	P 940,859,324
Income before tax	( 181,418,393)	204,320,174	697,528,898	( 940,859,324)
Equity	( 126,992,875)	143,024,122	488,270,229	( 658,601,527)

The methods used for deriving sensitivity information and significant assumptions did not change from the previous period.

### 4.3 Investment Risk

The investment risk represents the exposure to loss resulting from cash flows from invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. Additionally, there exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future, that is, the investment of those future premiums receipts may be at a yield below that required to meet future policy liabilities.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management reinvests the proceeds of the maturing securities and future premium receipts to financial instruments with satisfactory investment quality.

The Company's strategy is to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations taking into consideration limitations set by IC. Another strategy is to produce cash flows required to meet maturing insurance liabilities.

The Company invests in equities for various reasons, including diversifying its overall exposure to equity price risk. AFS financial assets are subject to declines in fair value. Generally, insurance regulations restrict the type of assets in which an insurance company may invest.

The Company uses asset-liability matching (ALM) as a management tool to determine the composition of the invested assets and appropriate investment and marketing strategies. As part of these strategies, the Company may determine that it is economically advantageous to be temporarily in an unmatched position due to the anticipated interest rate or other economic changes.

#### **4.4 Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Investment Committee. The policy is regularly reviewed for pertinence and for changes in the risk;
- Net exposure limits are set for each counterparty or group of counterparties, geographical and industry segments (i.e., limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may held);
- Reinsurance is placed with highly rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment;
- The Company sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings; and,
- The credit risk in respect of customer balances which are incurred on nonpayment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry or when the policy is either paid up or terminated. Commissions paid to intermediaries are offset against any amounts due to reduce the risk of non-collection.

Except for mortgage loans, collateral loans, installment contract receivable, policy loans, and guaranteed loans (presented as part of Note receivable under Loans and Other Receivables), the maximum exposure to credit risk of all financial assets is equal to their carrying amounts.

Policy loans are secured by the cash surrender values on the related policies. The Company grants policy loans up to the extent of the cash surrender values accumulated on the latest policy anniversary dates. The Company is not exposed to credit risk with respect to policy loans.

The tables below show the financial effect of the collateral or credit enhancement to the Company's maximum credit risk as at December 31, 2019 and 2018:

	<u>Gross Maximum</u>	<u>Fair Value of Collateral or Credit Enhancement</u>	<u>Net Exposure</u>	<u>Financial Effect of Collateral or Credit Enhancement</u>
<b>2019</b>				
Mortgage loans	P 3,733,402,094	P 5,102,776,123	P -	P 3,733,402,094
Installment contract receivables	225,001,085	240,710,967	-	225,001,085
Collateral loans	<u>85,463,330</u>	<u>92,495,237</u>	<u>-</u>	<u>85,463,330</u>
	<b><u>P 4,043,866,509</u></b>	<b><u>P 5,435,982,327</u></b>	<b><u>P -</u></b>	<b><u>P 4,043,866,509</u></b>
<b>2018</b>				
Mortgage loans	P 3,249,827,085	P 5,563,447,673	P -	P 3,249,827,085
Installment contract receivables	222,563,833	413,963,466	-	222,563,833
Collateral loans	<u>84,069,713</u>	<u>101,268,845</u>	<u>-</u>	<u>84,069,713</u>
	<b><u>P 3,556,460,631</u></b>	<b><u>P 6,078,679,984</u></b>	<b><u>P -</u></b>	<b><u>P 3,556,460,631</u></b>

The Company's concentration of credit risk arises from loans and other receivables since the said financial instruments amounted to P6.78 billion (2018: P6.96 billion) and 30.74% (2018: 27.17%) of its total financial assets as at December 31, 2019.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties, gross of any allowance for impairment.

	<u>Investment Grade</u>	<u>Neither Past Due nor Impaired Non- Investment Grade – Satisfactory</u>	<u>Non- Investment Grade – Unsatisfactory</u>	<u>Past Due but not Impaired</u>	<u>Past Due and Impaired</u>	<u>Total</u>
<b>2019</b>						
Cash and cash equivalents*	P 2,393,081,517	P -	P -	P -	P -	P 2,393,081,517
Insurance receivables						
Premiums due and uncollected	-	841,326,396	-	-	9,450,822	850,777,218
Due from agents	-	25,788,649	-	-	17,272,234	43,060,883
Financial assets at FVPL						
Debt securities	2,196,037,426	-	-	-	-	2,196,037,426
AFS financial assets						
Debt securities	4,438,372,753	-	-	-	-	4,438,372,753
Loans and other receivables						
Mortgage loans	3,599,133,232	83,399,564	2,502,422	44,012,591	4,354,285	3,733,402,094
Notes receivable	57,896,188	-	-	1,254,991,601	152,599,556	1,465,487,345
Health management organization (HMO) billback	183,539,307	-	-	-	218,443,208	401,982,515
Policy loans	515,363,730	-	-	-	-	515,363,730
Investment accounts receivable	-	-	-	56,407,402	13,107,049	69,514,451
Claims receivable - farmers	-	444,472,549	-	-	24,508,525	468,981,074
Installment contracts receivables	22,144,908	3,634,028	81,552,272	117,669,877	-	225,001,085
Collateral loans	78,539,068	-	50,881	2,053,307	4,820,074	85,463,330
Advances to officers and employees	39,783,114	-	-	-	4,824,943	44,608,057
Other receivables	194,100,877	-	-	-	-	194,100,877
Accrued income	87,562,875	-	-	-	245,480	87,808,355
Reinsurance assets**	5,392,594	-	-	-	-	5,392,594
Other assets***	20,037,123	-	-	-	-	20,037,123
	<b><u>P 13,830,984,712</u></b>	<b><u>P 1,398,621,186</u></b>	<b><u>P 84,105,575</u></b>	<b><u>P 1,475,134,778</u></b>	<b><u>P 449,626,176</u></b>	<b><u>P 17,238,472,427</u></b>

\* Excluding cash on hand.

\*\* Reinsurance recoverable on unpaid losses.

\*\*\* Pertains to refundable deposits.

2018	Investment Grade	Non-Investment Grade Satisfactory	Non-Investment Grade Unsatisfactory	Past Due but not Impaired	Past Due and Impaired	Total
Cash and cash equivalents*	P 2,752,114,518	P -	P -	P -	P -	P 2,752,114,518
Insurance receivables						
Premiums due and uncollected	-	680,744,707	-	-	9,450,822	690,195,529
Due from agents	-	24,852,894	-	-	17,272,234	42,125,128
Financial assets at FVPL						
Debt securities	2,461,303,463	-	-	-	-	2,461,303,463
AFS financial assets						
Debt securities	2,040,563,985	-	-	-	-	2,040,563,985
Loans and other receivables						
Mortgage loans	2,126,513,646	9,801,207	11,057,092	1,098,100,855	4,354,285	3,249,827,085
Notes receivable	1,609,812,890	-	-	133,209,982	138,208,707	1,881,231,579
Health management organization (HMO) billback	146,760,518	-	-	-	268,443,208	415,203,726
Policy loans	520,766,065	-	-	-	-	520,766,065
Investment accounts receivable	-	-	-	367,469,293	13,107,049	380,576,342
Claims receivable - farmers	-	406,156,475	-	-	24,508,525	430,665,000
Installment contracts receivables	5,321,013	88,723,083	1,746,502	126,773,235	-	222,563,833
Collateral loans	78,000,797	92,736	749,242	144,596	5,082,342	84,069,713
Advances to officers and employees	44,194,321	-	-	-	4,824,943	49,019,264
Other receivables	181,273,911	-	-	-	-	181,273,911
Accrued income	26,395,648	30,627,070	2,690,750	3,466,971	245,480	63,425,919
Reinsurance assets**	19,626,422	-	-	-	-	19,626,422
Other assets***	20,176,180	-	-	-	-	20,176,180
	<u>P 12,032,823,377</u>	<u>P 1,240,998,172</u>	<u>P 16,243,586</u>	<u>P 1,729,164,932</u>	<u>P 485,497,595</u>	<u>P 15,504,727,662</u>

\* Excluding cash on hand.

\*\* Reinsurance recoverable on unpaid losses.

\*\*\* Pertains to refundable deposits.

The Company uses an internal credit rating concept based on the borrowers' and counterparties' overall credit worthiness as follows:

*Investment Grade* – Rating given to borrowers and counterparties who have very strong capacity to meet their obligations.

*Non-investment Grade – satisfactory* – Rating given to borrowers and counterparties whose outstanding obligation is within the acceptable age of group.

*Non-investment Grade – unsatisfactory* – Rating given to borrowers and counterparties whose outstanding obligation is nearing to be past due or impaired.

An allowance for impairment is set up in the Company's statements of financial position for assets classified as past due and impaired. Financial assets are considered as past due and impaired when the contractual payments are in arrears by 180 days and the amount is not adequately secured. When contractual payments are in arrears, more than 180 days but adequately secured, financial assets are classified as 'past due but not impaired' with no recorded allowance for impairment.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending and for cash purposes. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. The related fair value of the collateral for the above past due and impaired assets amounted to P161.58 million and P9.75 million in 2019 and 2018, respectively. Total amount of past due and impaired assets with collateral is P160.78 million and P226.28 million for 2019 and 2018, respectively.

#### 4.5 Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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

- a liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Investment Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment;
- set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations; and,
- setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payment or on the estimated timing of net cash flows as at December 31, 2019 and 2018 (amounts in thousands):

	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Over Five Years</u>	<u>No Term/ 1 – 90 days</u>	<u>Total</u>
<b>2019</b>					
Policy and contract claims	P 1,711,164	P -	P -	P -	P 1,711,164
Reserve for policyholders' dividends	197,464	-	-	-	197,464
Premium deposits funds	719,307	-	-	-	719,307
Insurance payables	40,620	-	-	-	40,620
Accounts payable and accrued expenses	<u>1,421,997</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,421,997</u>
	<b><u>P 4,090,552</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 4,090,552</u></b>
<b>2018</b>					
Policy and contract claims	P 1,429,733	P -	P -	P -	P 1,429,733
Reserve for policyholders' dividends	191,725	-	-	-	191,725
Premium deposits funds	646,414	-	-	-	646,414
Insurance payables	74,102	-	-	-	74,102
Accounts payable and accrued expenses	<u>1,523,583</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,523,583</u>
	<b><u>P 3,865,557</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 3,865,557</u></b>

It is unusual for a company primarily engaged in insurance business to predict its funding requirements with absolute certainty as theory of probability is applied on insurance contracts to determine the likely provision and the time period when such liabilities will require settlement. Thus, the amounts and maturities in respect of insurance liabilities are based on management's best estimate using statistical techniques and data on past experience.

#### **4.6 Market Risk**

Market risk is the risk of change in fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest risk rates (fair value interest rate risk) and market prices (equity price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

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

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's Investment Committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Asset allocation and portfolio limit structure are set to ensure that assets back specific policyholder's liabilities and that assets are held to deliver income and market value appreciation for policyholders in line with their expectations.
- Stipulated diversification benchmarks are arranged by type of instrument of the Company.

##### **4.6.1 Currency Risk**

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

The Company's principal transactions are carried out in Philippine peso and its foreign exchange risk arises primarily with respect to the transactions denominated in U.S. dollar, where some of its products are denominated. The Company's financial assets are primarily denominated in the same currency as its insurance contracts, which mitigate the foreign exchange rate risk. Thus, the main foreign exchange risk arises from recognized financial assets and financial liabilities denominated in currency other than in which the insurance contracts are expected to be settled.

The tables in the succeeding page show the details of the Company's foreign currency-denominated assets and liabilities and their Philippine peso equivalents.



<u>2019</u>	<u>USD</u>	<u>PHP</u>
Assets:		
Cash and cash equivalents	\$ 5,153,171	P 260,930,806
Financial assets at FVPL	5,502,806	278,634,582
AFS financial assets	3,375,049	170,895,581
Accrued income	<u>115,511</u>	<u>2,620,270</u>
	14,146,537	713,081,239
Liability –		
Insurance contract liabilities	<u>4,928,251</u>	<u>249,541,963</u>
	<u>\$ 9,218,286</u>	<u>P 463,539,276</u>
 <u>2018</u>		
Assets:		
Cash and cash equivalents	\$ 3,049,699	P 160,780,131
Financial assets at FVPL	5,378,857	283,573,341
AFS financial assets	3,342,226	176,202,155
Accrued income	<u>142,382</u>	<u>7,506,379</u>
	11,913,164	628,062,006
Liability –		
Insurance contract liabilities	<u>3,921,609</u>	<u>206,747,227</u>
	<u>\$ 7,991,555</u>	<u>P 421,314,779</u>

In translating the foreign currency-denominated assets and liabilities, the exchange rates used were P50.64 to USD1.00 and P52.72 to USD1.00, the PHP-USD prevailing exchange rates as at December 31, 2019 and 2018, respectively.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on income before income tax.

There is no other impact on the Company's equity other than those already affecting profit or loss.

The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact, key changes had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

	<u>2019</u>		<u>2018</u>	
Change in variables	<u>12.93%</u>	( <u>12.93%</u> )	<u>9.54%</u>	( <u>9.54%</u> )
Increase (decrease) on income before income tax	(P 55,935,628)	P 55,935,628	( P 40,193,940)	P 40,193,940
Increase (decrease) on equity	( 41,954,940)	41,954,940	( 28,135,401)	28,135,401

#### 4.6.2 Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. The Company's fixed rate investments classified as AFS financial assets and Financial assets at FVPL are particularly exposed to such risk.

The Company's investment policy requires it to buy and hold fixed rate AFS financial assets and Financial assets at FVPL, unless the need to sell arises, and to reduce the duration gap between financial assets and financial liabilities to minimize interest rate risk.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on equity.

	<u>Change in Variables (%)</u>	<u>Increase (Decrease) on Equity</u>
<b>2019</b>		
In Philippine pesos	0.03	(P 1,385,413)
In U.S. dollars	0.18	( 556,339)
In Philippine pesos	( 2.98 )	129,016,597
In U.S. dollars	( 1.65 )	5,192,073
<b>2018</b>		
In Philippine pesos	3.31	(P 61,709,933)
In U.S. dollars	0.67	( 1,180,644)
In Philippine pesos	( 0.38 )	8,275,293
In U.S. dollars	( 0.20 )	567,190

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

#### 4.6.3 Equity Price Risk

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

The Company's price risk relates to financial assets whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

For equity securities listed in the Philippines and golf club shares, an average volatility of 10.42% and 33.69% has been observed during 2019 and 2018, respectively. If quoted price of these securities increased or decreased by that amount, profit before tax would have been changed by P0.41 billion and P1.04 billion, respectively.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Company's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Company's favor.

## 5. CAPITAL MANAGEMENT

### *5.1 Regulatory Framework*

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions, net worth requirements, and risk-based capital (RBC) requirements to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. The Company's capital includes capital stock, contributed surplus and retained earnings.

The Company maintains a capital base to cover risks inherent in the business. Externally imposed capital requirements are set and regulated by the IC. These requirements are put in place to ensure solvency margins.

The Company manages its capital requirements by complying with requirements and limitations enforced by the IC, by maintaining profitability of the business and by aligning the Company's operational strategy to its corporate goals.

In 2019, the Company write-off its UCPB and CIIF shares which resulted to noncompliance with the RBC requirement. A five-year regulatory leeway was granted by the Commission to build up the Company's capital. The Company fully complied with the externally imposed capital requirements as at December 31, 2018, and no changes were made to its capital base, objectives, policies and processes.

The Company's primary capital management objectives are to ensure its ability to continue as a going concern in order to fulfill the Company's mission and vision and to provide adequate return to shareholders.

The Company manages its capital structure in light of changes in the economic conditions and the risk characteristics of its activities. The Company takes into consideration future capital requirements, capital deficiency, profitability, and projected operating cash flows, expenditures and investment opportunities. No changes were made in the objectives, policies and processes as at December 31, 2019 and 2018.

## 5.2 Net Worth Requirements

Under the Insurance Code, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

<u>Compliance Date</u>	<u>Net Worth</u>
On or before June 30, 2013	P 250,000,000
On or before December 31, 2016	550,000,000
On or before December 31, 2019	900,000,000
On or before December 31, 2020	1,300,000,000

As at December 31, 2019 and 2018, the Company has complied with the net worth requirements based on its internal computation.

## 5.3 RBC Requirements

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

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include an insurance company's paid-up capital, contributed surplus and retained earnings. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC. RBC requirement shall be computed based on the formula provided in the Circular and shall include asset default risk, insurance pricing risk, interest rate risk and general business risk.

Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. The trend test has failed, in the event that:

- The RBC ratio is less than 125% but is not below 100%
- The RBC ratio has decreased over the past year
- The difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%

Failure to meet the RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

In 2016, the IC issued CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, prescribes that all insurance companies must satisfy the minimum statutory RBC ratio of 100% and not fail the Trend Test as stated under Section 3 of this Circular. The RBC ratio of an insurance company shall be equal to the Total Available Capital divided by the RBC requirement.

IC CL No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework*, provides that the level of sufficiency for the RBC2 Framework shall be at 95% level in 2017, 97.50% in 2018 and 99.50% in 2019.

IC CL No. 2018-19, *Amendment to CL no. 2016-69 "Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework"*, provides guidelines on disclosure of MfAD. The amendment states that 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.

The RBC Ratio under the prevailing standard as at December 31, 2019 and 2018 are 92% and 162%, respectively. The final RBC ratio can be determined only after the accounts of the Company have been examined by the IC.

The information below shows the RBC ratios determined by the Company as at December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Net worth	P 3,329,561,907	P 9,671,324,994
RBC requirement	<u>3,603,181,208</u>	<u>5,986,626,328</u>
RBC Ratio	<u>92.41%</u>	<u>161.55%</u>

On July 1, 2019, upon the advice of the IC, the Company submitted its Revised Management Plan to address the RBC2 Deficiency, setting forth its program of actions to build up its RBC2 ratio which fell below the mandatory level following the write-off of its investment in stocks of the CIIF-OMG and UCPB.

On October 25, 2019, the IC issued its reply to the Revised Management Plan approving the five-year recovery program which the Company has proposed, giving it some regulatory leeway during the said period, subject to strict regular monitoring.

With the intensified actions employed by the Company to address the RBC2 ratio deficiency, and with its excellent financial performance during the year, the resulting RBC2 ratio for 2019 is significantly higher than what the Company projected for the said year, and just a few knots away from the required level. With its continuous effort in addressing the RBC2 ratio, the Company is very confident that it will be able to comply with the IC requirement by the end of 2020, thereby drastically shortening the recovery period to two years instead of five years, as originally projected in the Revised Management Plan.

As at December 31, 2019 and 2018, the estimated amounts of non-admitted assets, as defined under the Insurance Code, which are included in the statements of financial position, are as follows:

	<u>2019</u>	<u>2018</u>
Loans and receivables	P 878,051,027	P 805,082,358
Equity securities and other investments	237,045,156	792,938,661
Premiums due and uncollected	501,644,466	394,374,121
Property and equipment	158,232,750	145,034,928
Investment property	17,699,635	73,848,483
Other assets and receivables	<u>795,413,532</u>	<u>704,572,927</u>
	<u>P 2,588,086,566</u>	<u>P 2,915,851,478</u>

#### 5.4 Limitation on Dividend Declaration

Section 195 of the Insurance Code provides that a domestic life insurance company shall declare or distribute dividends on its outstanding stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- RBC ratio;
- the legal reserve fund required; and,
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

The Company is required to report such dividend declaration or distribution to the IC within 30 days from the date of such declaration.

There were no dividends declared by the Company in 2019 and 2018.

## 6. CATEGORIES, FAIR VALUE MEASUREMENT AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 6.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below (amounts in thousands).

	Classes		Carrying Amount	Fair Value
	At Amortized Cost	At Fair Value		
<b>December 31, 2019</b>				
<b>Financial Assets</b>				
At amortized cost:				
Cash and cash equivalents	P 2,398,865	P -	P 2,398,865	P 2,398,865
Insurance receivables	867,115	-	867,115	867,115
Loans and other receivables	6,781,247	-	6,781,247	6,781,247
Accrued income	87,808	-	87,808	87,808
Reinsurance assets	5,393	-	5,393	5,393
Other assets	54,161	-	54,161	54,161
At fair value:				
Financial assets at FVPL	-	3,258,571	3,258,571	3,258,571
AFS financial assets	-	7,498,952	7,498,952	7,498,952
	<b>P 10,194,589</b>	<b>P 10,757,523</b>	<b>P 20,952,112</b>	<b>P 20,952,112</b>
<b>Financial Liabilities</b>				
At amortized cost:				
Insurance contract liabilities	P 16,825,220	P -	P 16,825,220	P 16,825,220
Reserve for policyholders' dividends	197,464	-	197,464	197,464
Premium deposit funds	719,307	-	719,307	719,307
Insurance payables	40,620	-	40,620	40,620
Accounts payable and accrued expenses	1,421,997	-	1,421,997	1,421,997
	<b>P 19,204,608</b>	<b>P -</b>	<b>P 19,204,608</b>	<b>P 19,204,608</b>

December 31, 2018

*Financial Assets*

At amortized cost:

Cash and cash equivalents	P	2,758,306	P	-	P	2,758,306	P	2,758,306
Insurance receivables		705,598		-		705,598		705,598
Loans and other receivables		6,907,648		-		6,907,648		6,907,648
Accrued income		63,180		-		63,180		63,180
Reinsurance assets		19,626		-		19,626		19,626
Other assets		50,150		-		50,150		50,150

At fair value:

Financial assets at FVPL		-		3,461,926		3,461,926		3,461,926
AFS financial assets		-		11,604,723		11,604,723		11,604,723

P 10,504,508      P 15,066,649      P 25,571,157      P 25,571,157

*Financial Liabilities*

At amortized cost:

Insurance contract liabilities	P	14,643,775	P	-	P	14,643,775	P	14,643,775
Reserve for policyholders' dividends		191,725		-		191,725		191,725
Premium deposit funds		646,414		-		646,414		646,414
Insurance payables		74,102		-		74,102		74,102
Accounts payable and accrued expenses		1,523,583		-		1,523,583		1,523,583

P 17,079,599      P -      P 17,079,599      P 17,079,599

## 6.2 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- 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 resource or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### 6.3 Financial Instruments Measured at Fair Value

The financial assets and financial liabilities measured at fair value in the statements of financial position as of December 31, 2019 and 2018 are grouped into the fair value hierarchy as follows (in thousands):

	Notes	Level 1	Level 2	Level 3	Total
<b>December 31, 2019</b>					
Financial assets at FVPL	9				
Equity securities		P 1,031,925	P -	P -	P 1,031,925
Government debt securities		926,297	-	-	926,297
Corporate debt securities		1,269,740	-	-	1,269,740
Equity investments designated as financial assets at FVPL		-	30,609	-	30,609
AFS financial assets	10				
Equity securities		3,060,579	-	-	3,060,579
Debt securities		<u>4,438,373</u>	<u>-</u>	<u>-</u>	<u>4,438,373</u>
		<b><u>P10,726,914</u></b>	<b><u>P 30,609</u></b>	<b><u>P -</u></b>	<b><u>P 10,757,523</u></b>
<b>December 31, 2018</b>					
Financial assets at FVPL	9				
Equity securities		P 970,014	P -	P -	P 970,014
Government debt securities		2,191,915	-	-	2,191,915
Corporate debt securities		269,388	-	-	269,388
Equity investments designated as financial assets at FVPL		-	30,609	-	30,609
AFS financial assets	10				
Equity securities		8,958,220	-	-	8,958,220
Debt securities		<u>2,040,564</u>	<u>-</u>	<u>-</u>	<u>2,040,564</u>
		<b><u>P14,430,101</u></b>	<b><u>P 30,609</u></b>	<b><u>P -</u></b>	<b><u>P 14,460,710</u></b>

As at December 31, 2018, the Company has AFS equity securities measured at cost amounting to P605.94 million (see Note 10). No similar transaction in 2019.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.



#### 6.4 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amounts in thousands).

	Notes	Level 1	Level 2	Level 3	Total
<b>December 31, 2019</b>					
<i>Financial assets</i>					
Cash and cash equivalents	7	P 2,398,865	P -	P -	P 2,398,865
Insurance receivables	8	-	-	867,115	867,115
Loans and other receivables	11	-	-	6,781,247	6,781,247
Accrued income	12	-	-	87,808	87,808
Reinsurance assets	13	-	-	5,393	5,393
Other assets	19	-	-	54,161	54,161
		<u>P 2,398,865</u>	<u>P -</u>	<u>P 7,795,724</u>	<u>P 10,194,589</u>
<i>Financial liabilities</i>					
Insurance contract liabilities	20	P -	P -	P 16,825,220	P 16,825,220
Reserve for policyholders' dividends	21	-	-	197,464	197,464
Premium deposit funds	22	-	-	719,307	719,307
Insurance payables	23	-	-	40,620	40,620
Accounts payable and accrued expenses	24	-	-	1,421,997	1,421,997
		<u>P -</u>	<u>P -</u>	<u>P 19,204,608</u>	<u>P 19,204,608</u>
<b>December 31, 2018</b>					
<i>Financial assets</i>					
Cash and cash equivalents	7	P 2,758,306	P -	P -	P 2,758,306
Insurance receivables	8	-	-	705,598	705,598
Loans and other receivables	11	-	-	6,907,648	6,907,648
Accrued income	12	-	-	63,180	63,180
Reinsurance assets	13	-	-	19,626	19,626
Other assets	19	-	-	50,150	50,150
		<u>P 2,758,306</u>	<u>P -</u>	<u>P 7,746,202</u>	<u>P 10,504,508</u>
<i>Financial liabilities</i>					
Insurance contract liabilities	20	P -	P -	P 14,643,775	P 14,643,775
Reserve for policyholders' dividends	21	-	-	191,725	191,725
Premium deposit funds	22	-	-	646,414	646,414
Insurance payables	23	-	-	74,102	74,102
Accounts payable and accrued expenses	24	-	-	1,523,583	1,523,583
		<u>P -</u>	<u>P -</u>	<u>P 17,079,599</u>	<u>P 17,079,599</u>

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

#### 6.5 Fair Value Measurement of Investment Properties

The table below shows the levels within the fair value hierarchy of investment properties measured at fair value on a recurring basis as of December 31, 2019 and 2018 (in thousands).

	Level 1	Level 2	Level 3	Total
2019	P -	P 1,881,662	P -	P 1,881,662
2018	P -	P 1,661,484	P -	P 1,661,484

The fair values of the Company's investment properties were arrived at using the Market Data Approach. Under this approach, the values of the properties are based on sale and listings of comparable properties registered in the vicinity. It requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator and adjustments of the differences between the subject properties and those actual sales and listings regarded as comparables. The comparison was premised on the factors of location, characteristics of the lot, time element, quality and prospective use.

The fair values measurement for investment properties has been categorized as a Level 2 fair value (see Note 16). The Company engaged accredited independent appraisers to determine the fair value of its investment properties.

#### ***6.6 Offsetting Financial Assets and Financial Liabilities***

The Company has not set-off financial instruments in 2019 and 2018 and the only financial assets which are subject to offsetting arrangement is Company's policy loans which are secured with cash surrender value. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by the BOD and stockholders of both parties.

### **7. CASH AND CASH EQUIVALENTS**

This account consists of:

	<u>2019</u>	<u>2018</u>
Cash on hand	P 5,783,664	P 6,191,599
Cash in banks	455,132,114	648,895,436
Short-term placements	<u>1,937,949,403</u>	<u>2,103,219,082</u>
	<b><u>P2,398,865,181</u></b>	<b><u>P2,758,306,117</u></b>

Cash in banks earn interest at prevailing interest rates. Cash equivalents are made for various periods depending on the immediate cash requirements of the Company and earn interest ranging from 0.25% to 2.50% in both 2019 and 2018.

Short-term placements are made for varying periods from 15 to 30 days and earn effective interest ranging from 1.50% to 7.50% in 2019 and from 3.97% to 7.50% in 2018.

Interest income earned in 2019 and 2018 amounted to P127.92 million and P54.63 million, respectively, and is presented as part of Interest income under Investment Income account in the statements of comprehensive income (see Note 28).

8. **INSURANCE RECEIVABLES**

This account consists of:

	<u>2019</u>	<u>2018</u>
Premiums due and uncollected	P 850,777,218	P 690,195,529
Due from agents	<u>43,060,883</u>	<u>42,125,128</u>
	893,838,101	732,320,657
Allowance for impairment	( <u>26,723,056</u> )	( <u>26,723,056</u> )
	<u>P 867,115,045</u>	<u>P 705,597,601</u>

All of the Company's insurance receivables have been reviewed for indicators of impairment. Management determined that there was no additional allowance for impairment loss necessary as at December 31, 2019 and 2018. However, the allowance for impairment previously recognized in loans and receivables amounting to P0.09 million was reclassified to insurance receivables during 2018 (see Note 11).

9. **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

This account consists of the following financial assets which are issued in:

	<u>2019</u>	<u>2018</u>
Philippines	P2,938,294,498	P1,136,798,953
United States	<u>320,276,806</u>	<u>2,325,127,444</u>
	<u>P3,258,571,304</u>	<u>P3,461,926,397</u>

The carrying amounts of the financial assets at FVPL are classified as follows:

	<u>2019</u>	<u>2018</u>
Corporate debt securities	P1,269,739,528	P 269,388,085
Equity securities	1,031,924,878	970,013,934
Government debt securities	926,297,898	2,191,915,378
Equity investments designated as financial assets at FVPL	<u>30,609,000</u>	<u>30,609,000</u>
	<u>P3,258,571,304</u>	<u>P3,461,926,397</u>

Dividend income from equity securities and interest income from debt securities are presented as part of Investment Income account in the statements of comprehensive income (see Note 28).

The carrying values of financial assets at FVPL have been determined as follows:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year		<b>P3,461,926,397</b>	P2,035,769,681
Additions		<b>1,713,221,055</b>	3,154,217,057
Maturities and disposals		<b>( 1,989,605,056)</b>	( 1,680,212,345)
Fair value gain (loss)	28	<b>84,192,762</b>	( 65,430,684)
Foreign exchange gain (loss)		<b>( 11,163,854)</b>	<u>17,582,688</u>
Balance at end of year		<b><u>P3,258,571,304</u></b>	<u>P3,461,926,397</u>

Fair value gains (losses) on financial assets at FVPL, which is presented as part of Investment Income account in the statements of comprehensive income, consists of:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Government debt securities		<b>P 43,575,612</b>	(P 16,916,275)
Equity securities		<b><u>40,617,150</u></b>	<u>( 48,514,409)</u>
	28	<b><u>P 84,192,762</u></b>	<u>(P 65,430,684)</u>

The fair values of equity securities presented above have been determined directly by reference to quote bid prices in active markets (see Note 6.3).

In addition, financial assets at FVPL with carrying amount of P225.43 million and P1.68 billion matured or were sold in 2019 and 2018, respectively. Accordingly, the related gains and losses from sale of these financial assets are presented under Investment Income account in the statements of comprehensive income (see Note 28).

#### 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account consists of:

	<u>2019</u>	<u>2018</u>
Debt securities	<b>P 4,438,372,753</b>	P 2,040,563,985
Equity securities at fair value	<b>3,060,579,453</b>	8,958,219,510
Equity securities at cost	<u>-</u>	<u>605,939,729</u>
	<b><u>P 7,498,952,206</u></b>	<u>P11,604,723,224</u>

As at December 31, 2018, AFS unlisted equity securities carried at fair values consist mainly of the Company's investment in shares of stock of CIIF-OMG which are presented below:

- Granexport Manufacturing Corporation (Granex)
- Legaspi Oil Company, Inc. (LegOil)
- San Pablo Manufacturing Corporation (SPMC)
- Southern Luzon Coconut Oil Mills Co., Inc. (SolCom)

The fair values of the total investments in CIIF-OMG were determined by taking into account the redemption price of San Miguel Corporation (SMC) shares, which comprise 96.72% (over total balance) of CIIF's assets, and discounted cash flow (DCF) approach for other operating net assets.

The CIIF-OMG have investments in 14 CIIF Holding Companies which hold shares in SMC. The aggregate market value of the Company's interest in these SMC shares amounted to P6.21 billion as at December 31, 2018. In addition, the fair values of the other operating net assets of the CIIF-OMG have been determined using DCF approach. Significant assumptions used include a discount rate of 12.00% in 2018. The DCF computation is based on latest available figures of CIIF-OMG as at December 31, 2015.

The assets of the CIIF-OMG and the SMC shares which were subsequently redeemed are presently sequestered and are the subject of an ongoing appeal by the Philippine Coconut Producers Federation with the Supreme Court (SC). The investments of SPMC, Iligan Coconut Industries, Inc. ('Ilicoco') and other CIIF-OMG in the 14 CIIF Holding Companies and the loans and advances granted by SPMC, Ilicoco and other CIIF-OMG Companies to the 14 CIIF Holding Companies were used to purchase the shares of stock in SMC. As at December 31, 2001, the loans and advances granted to the 14 CIIF Holding Companies were fully collected. These SMC shares were sequestered by the Presidential Commission on Good Government (PCGG) in May 1986.

The 14 CIIF Holding Companies, UCPB and SMC executed and subsequently implemented in 1991 a compromise agreement and amicable settlement involving the SMC shares of stock held by the 14 CIIF Holding Companies. Notwithstanding the implementation of the compromise agreement and amicable settlement, all the subject SMC shares of stock remain sequestered by the PCGG. Certain parties, however, filed before the Sandiganbayan their opposition to the implementation of the said agreement.

On November 10, 1993, the Republic of the Philippines, acting through the PCGG, filed before the Sandiganbayan a motion for authority to sell all the 14 CIIF Holding Companies' shares of stock of SMC. The proceeds of the sale would then be utilized to pay for the indebtedness of the CIIF Holding Companies to UCPB and any remaining balance thereof would be used for urgently needed projects designed for the benefit of the coconut farmers and pursuant to the intent of the CIIF. The motion was opposed by certain parties.

On September 27, 1996, the 14 CIIF Holding Companies and UCPB, as administrator of the CIIF Holding Companies and as then creditor of the 14 CIIF Holding Companies (the UCPB loan was fully paid by the 14 CIIF Holding Companies in November 2002), filed a joint motion before the Sandiganbayan and respectfully moved that they be authorized to sell all the 14 CIIF Holding Companies' SMC Class B shares and to buy an equal number of SMC Class A shares. The motion was denied on December 12, 1997. On January 7, 1998, the 14 CIIF Holding Companies and UCPB filed a motion for reconsideration.

On May 7, 1998, in an "en banc" resolution, the PCGG lifted the sequestration of the SMC shares, subject to the approval of the Sandiganbayan. The lifting of the sequestration on the SMC shares owned by the 14 CIIF Holding Companies will enable the CIIF companies to re-deploy their resources in response to the demands of an ever-changing business environment and to initiate strategic programs aimed at enhancing the competitiveness of the Philippine coconut industry.

On February 9, 1999, the Sandiganbayan considered the motion dated November 10, 1993 withdrawn without prejudice to whatever actions the parties may take for revival or resuscitation thereof under such terms which may be appropriate at that time. On March 12, 1999, certain parties filed a motion for permission to present evidence in relation to their opposition of said November 10, 1993 motion to sell all SMC shares.

On November 8, 2000, the President of the Philippines issued Executive Order (EO) No. 313 creating an irrevocable trust fund to be known as the Coconut Trust Fund to be managed by a Trust Fund Committee. EO No. 313 also provided that the subject SMC shares shall form part of the initial capital of the Coconut Trust Fund. For the purpose of implementing the creation of the Coconut Trust Fund, EO No. 313 directed the 14 CIIF Holding Companies, acting through Administrator of the coconut levy fund, to: (a) convey the subject SMC shares to the Trustee; and, (b) sign, execute and deliver such documents, deed or contracts, under such conditions not inconsistent with EO No. 313 likewise mandates the PCGG and the Office of the Solicitor General (OSG) to lift the sequestration of the subject SMC shares and take all the necessary steps to implement the purposes and objectives of EO No. 313.

As a first step toward the implementation of EO No. 313, the PCGG adopted resolutions on November 28, 2000, lifting the sequestration of the subject SMC shares. On January 10, 2001, a Motion to Withdraw Complaint was filed by the PCGG before the Sandiganbayan requesting for the exclusion of the subject SMC shares from Civil Case No. 0033-F and for the cause of action against defendants, the 14 CIIF Holding Companies, in connection with the said shares to be considered withdrawn.

As a result of the installation of the new dispensation, on January 30, 2001, a Manifestation and Motion to Hold in Abeyance Motion to Withdraw Complaint dated January 10, 2001 was filed before Sandiganbayan requesting to defer action in the aforementioned Motion until February 25, 2001 or later, for the reason that EO No. 313 is still undergoing review by the Office of the President for possible amendment, suspension and revocation.

The Sandiganbayan, in a Motion for Partial Summary Judgment on May 7, 2004, decided that SPMC and the other CIIF Block of SMC shares of stock totaling 33,133,266 shares in 1983, together with all dividends declared, paid and issued thereon, as well as any increments thereto arising from, but not limited to, exercise of pre-emptive rights, are declared owned by the government in trust for all the coconut farmer and ordered reconveyed to the government.

Certain parties filed a Motion for Reconsideration to such Sandiganbayan decision. The motion for reconsideration was denied by Sandiganbayan on December 28, 2004. On March 29, 2005, the 14 CIIF Holding Companies, as authorized by the PCGG, exercised their pre-emptive rights first on the SMC Class B shares and thereafter on the SMC Class A shares of SMC's 105 stock offering to the extent of the cash dividends held by the 14 CIIF Holding Companies. The 14 CIIF Holding Companies subscribed to 27,952,430 Class B shares and 693,242 Class A shares resulting in total shareholdings of 307,395,776 Class B shares and 446,476,531 Class A shares.

On July 24, 2009, SMC made an Exchange Offer preferred shares for its issued and outstanding Class A and Class B common shares, on a one-for-one basis. The peso-denominated nonvoting preferred shares (the Series 1 Preferred Shares) will have an issue price of P75.00 (the Issue Price). The maximum Series 1 Preferred Shares that could be exchanged in the Exchange Offers is 1,104,000 shares.

The Company and the CIIF-OMG chose to participate in the Exchange Offer. The Company and the CIIF-OMG submitted their applications to exchange in October 2009. The Company and the CIIF-OMG received 751,185 and 753,848,312 Series 1 Preferred Shares, respectively, in exchange for an equivalent number of common shares.

On December 23, 2009, the Company's BOD approved the Memorandum of Agreement (MOA) which allowed the Company to account for its investment in CIIF-OMG as investments in associates because despite ownership of less than twenty percent (20%) interest in the CIIF-OMG, the Company has significant influence by virtue of joint rights with UCPB as stockholders of the CIIF-OMG for their collective benefit. Upon effectivity of the MOA on January 1, 2010, the CIIF-OMG became associates of the Company.

As allowed under PAS 27, the Company accounted for its investments in CIIF-OMG as similar to AFS financial assets in accordance with PAS 39 which are carried at fair value in its separate financial statements.

On January 24, 2012, the SC rendered its decision in favor of the government in two cases involving: (a) the ownership of certain sequestered shares in UCPB and (b) the ownership over the CIIF-OMG, the 14 CIIF Holding Companies and the shares of stock in SMC held by the 14 CIIF Holding Companies, together with all dividends declared, paid and issued thereon as well as any increments thereto arising from, but not limited to, exercise of pre-emptive rights.

On February 14, 2012, the Philippine Coconut Producers Federation, Inc., et. al., filed a Motion for Reconsideration on the decision rendered by the SC. The SC subsequently rendered a decision on September 4, 2012 which resolves to deny with finality the aforementioned case for the lack of merit. Further, the court clarifies that the SMC shares, with all the dividends earnings as well as all increments that may arise from, are owned by the government to be used for the benefit of all the coconut farmers and for the development of the coconut industry.

On December 28, 2012, the Company filed a Petition for Declaratory Relief to seek for an authoritative declaration of its rights and duties as a stockholder of the CIIF-OMG, and 14 CIIF Holding Companies. Against this petition the Philippine Government through the PCGG filed with the SC a petition for, among others, the issuance of the Temporary Restraining Order (TRO) enjoining the trial court Judge from proceeding with the hearing of the petition for declaratory relief. On February 26, 2014, the SC issued the TRO.

On December 10, 2014, the SC issued a resolution directing that an entry of judgment be made for its January 24, 2012 Decision, which ordered the reconveyance of the CIIF Block of SMC shares to the Philippine Government, to be used exclusively for the benefit of coconut farmers and the development of the local coconut industry.

On March 18, 2015, President Benigno S. Aquino III issued EO No. 179, *Providing the Administrative Guidelines for the Inventory and Privatization of Coco Levy Assets*, and EO No. 180, *Providing the Administrative Guidelines for the Reconveyance and Utilization of Coco Levy Assets for the Benefit of the Coconut Farmers and the Development of the Coconut Industry, and For Other Purposes*, together referred to as the "EOs".

The EOs mandate the inventory, reconveyance, utilization and privatization of coco levy assets to ensure that the Coco Levy Fund and coco levy assets will only be utilized for the benefit of the coconut farmers and the Philippine coconut industry. The EOs define Coco Levy Fund as all funds created or sourced from the coco levy assets imposed by the government, including the CIIF and the Coconut Consumers Stabilization Fund. Coco levy assets meanwhile refer to the money, assets or properties, whether real or personal, tangible or intangible, wherever situated, arising from or otherwise funded by or acquired through the use or by means of any of the coco levy funds, directly or indirectly, including but not limited to shares, rights, and interests, whether vested, contingent, expectant, choate or inchoate, and any and all fruits, income, interest, or profits derived from these assets including those acquired in exchange or substitution thereof.

During the pendency of the proceedings for the execution of the EOs, that is, even before the Sandiganbayan had acted on the motion for execution filed by the PCGG, a TRO was issued by the SC on June 30, 2015 relative to the petition filed by the Confederation of Coconut Farmers Organization of the Philippines. The TRO basically orders the Philippine Government to stop the implementation of the said EOs until further orders from the SC.

On May 17, 2015, the SC issued a TRO from implementing EO Nos. 179 and 180 and from using, disbursing and disposing the subject coconut levy assets and funds. Prior to the SC's issuance of the TRO however, the Bureau of Treasury transferred significant amount of cash from the account "PCGG in trust for CIIF 14 Holding Companies" to "Special Account in the General Fund (SAGF) for Coco Levies".

On September 15, 2015, the SC dismissed the separate petitions made by UCPB and the Company last December 28, 2012 for declaratory relief which was filed before the Makati Regional Trial Court (Makati RTC). The SC confirms that the Makati RTC has no jurisdiction over the Company's petition. The SC further confirms that the Sandiganbayan has sole jurisdiction over any and all incidents affecting the coco levy funds and assets.

On April 4, 2016, the PCGG filed before the Sandiganbayan a motion for partial execution of the EOs. However, on April 19, 2017, the Company filed a motion for leave of court to file comment before the Sandiganbayan to protect or preserve the vested right or legal interest of the Company that will be adversely affected by the execution of the EOs.

On December 29, 2017, the Sandiganbayan favorably acted on Cocolife, UCPB and the CIIF-OMG's pleadings and allowed them to be heard by presenting their legal positions and claims on the CIIF-OMG investments on January 29, 2018.

On January 29, 2018, the resolution discussed during the hearing was related only to the motion for reconsideration filed by the OSG opposing the resolution of Sandiganbayan dated December 29, 2017 which allowed the Company, UCPB and CIIF-OMG to present their legal position and claims.

On December 3, 2018, the Sandiganbayan affirmed the Partial Summary of Judgment of the Court dated May 7, 2004, finding that the CIIF Companies, the 14 Holding Companies, and the CIIF Block of SMC shares are owned by plaintiff Republic of the Philippines.

As at December 31, 2018, the carrying amount of the Company's investments in UCPB common shares and CIIF-OMG shares amounted to P6.3 billion.



As of December 31, 2018, the Company assessed that these investments are impaired. Relative to this, the Company written off portion of its investments in CIIF-OMG and UCPB amounting to P700.62 million in 2018 of which P570.12 million was charged against the related Reserve for Fluctuation of AFS, P63.4 million was charged against the related deferred tax liability, and the remaining amount of P67.1 million was recorded as part of Impairment losses under General and Administrative expense account in the 2018 statement of comprehensive income (see Note 31).

In 2019, the Company decided to write-off the remaining investments in CIIF-OMG and UCPB amounting to P6.30 billion. The Company adjusted this against the balance of deferred tax liabilities, reserve for fluctuation of AFS financial assets and directly to retained earnings amounting to P570.12 million, P5.13 billion, and P604.20 million, respectively.

The Company has also assessed in 2019 that its investments in UCPB preferred shares amounting to P100.00 million are already impaired in light of the foregoing. The Company adjusted this impairment loss against the opening balance of Retained Earnings account.

*(a) AFS Equity Securities at Cost*

In 2011, the Company foreclosed its receivables from Archipelago Finance and Leasing Corporation, an entity under common control, pertaining to the sales of UCPB shares in 2000 up to 2002 amounting to P351.98 million and secured by a pledge on 29,290,224 shares sold. Consequently, the Company's investments in UCPB shares increased from 100,000,000 shares as at December 31, 2010 valued at P100.00 million to 129,290,224 shares as at December 31, 2011 valued at P451.98 million. These stocks are non-participating, nonvoting preferred shares convertible to common shares of UCPB with P1 par value, an affiliated local commercial bank at the option of the holder. These shares are entitled to cumulative dividends of 14% per annum.

A substantial portion of the outstanding shares of stock of UCPB remains sequestered as a result of the sequestration orders previously issued by the PCGG on June 26, 1986. In 2012, the Company redeemed the UCPB shares amounting to P100.00 million from UCPB GEN, a wholly-owned subsidiary. The Company has investments in UCPB shares amounting to P603.40 million as of December 31, 2018. In 2019, the Company recognized full impairment of the investments in UCPB shares amounting to P603.40 million.

The issue of ownership of the sequestered shares has been the subject of ongoing court proceeding with SC and Sandiganbayan. However, on December 14, 2001, the SC ruled that the Coconut Levy Funds, from which the funds to buy UCPB shares were occurred, were prima facie public funds.

Further, on July 2, 2002, the SC directed the Sandiganbayan First Division to resolve with all deliberate speed and not later than six months such ownership issue.

The Sandiganbayan, in its decision dated July 11, 2003, ruled and declared that ownership of 72.20% in UCPB legally belongs to the government. Subsequently, the SC rendered a decision on January 25, 2012 supporting the decision of the Sandiganbayan on July 11, 2003.

On February 14, 2012, the Philippine Coconut Producers Federation, Inc., et. al., filed a Motion for Reconsideration on the decision rendered by the SC. The SC subsequently rendered a decision on September 4, 2012 which resolves to deny with finality the said Motion for Reconsideration for lack of merit.

The Petition for Declaratory Relief by the Company on December 28, 2012 also mentioned its ownership over these UCPB shares.

The carrying values of AFS financial assets have been determined as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	<b>P11,604,723,224</b>	P12,552,691,239
Additions	<b>7,140,194,629</b>	4,045,369,423
Maturities and disposals	<b>( 4,923,426,271)</b>	( 3,017,522,993)
Fair value losses	<b>( 4,574,880,546)</b>	( 1,243,185,087)
Impairment on AFS	<b>( 1,739,274,240)</b>	( 718,575,993)
Foreign exchange loss	<b>( 8,384,589)</b>	( 14,053,365)
Balance at end of year	<b><u>P 7,498,952,207</u></b>	<u>P11,604,723,224</u>

As at December 31, 2019 and 2018, government securities with a total value of n P167.03 million and P142.30 million, respectively, are deposited with the IC in accordance with the provision of the Insurance Code as security for the benefit of policyholders and creditors of the Company.

Changes in fair value of AFS financial assets recognized in the statements of comprehensive income as part of Investment Income amounted to P1,169.18 million gain in 2019 and P1,813.8 million loss in 2019 and 2018, respectively. The fair values of AFS financial assets have been determined directly by reference to published prices in active market.

Dividend income from equity securities and interest income from debt securities are presented as part of Investment Income account in the statements of comprehensive income (see Note 28).

In 2018, the Company has considered the investment in AMC preferred shares amounting to P17.98 million to be fully impaired. The impairment loss related to investments in AMC preferred shares was adjusted against the opening balance of Retained Earnings account in the statements of financial position instead of charging it in the profit or loss during the year.

In 2019, in addition to the full impairment of the remaining investments in CIIF-OMG and UCPB amounting to P6.40 billion, the Company has assessed that various equity investments amounting to P1,030.07 million are impaired, due to the significant and prolonged decline of the market price of those shares. The management adjusted these impairment losses against the opening balance of Retained Earnings account instead of recording it in the profit or loss as management believes that these investments were already impaired in prior years due to persistent fair value losses incurred from these investments.

AFS financial assets with carrying amount of P4.92 billion and P3.02 billion in 2019 and 2018, respectively, were matured or sold. Accordingly, the related gains and losses from sale of these financial assets are presented under Investment Income account in the statements of comprehensive income (see Note 28).

## 11. LOANS AND OTHER RECEIVABLES

This account consists of:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Mortgage loans		<b>P3,733,402,094</b>	P3,249,827,085
Note receivable		<b>1,465,487,345</b>	1,881,231,579
Policy loans		<b>515,363,730</b>	520,766,065
Claims receivable - farmers		<b>468,981,074</b>	430,665,000
HMO billback		<b>401,982,515</b>	415,203,725
Installment contract receivables		<b>225,001,085</b>	222,563,833
Collateral loans		<b>85,463,330</b>	84,069,713
Investment accounts receivable	14	<b>69,514,451</b>	380,576,342
Advances to officers and employees		<b>44,608,057</b>	49,019,264
Others		<b><u>194,100,877</u></b>	<u>181,273,911</u>
		<b>7,203,904,558</b>	7,415,196,517
Allowance for impairment losses		<b>( <u>422,657,640</u> )</b>	<b>( <u>458,529,058</u> )</b>
		<b><u>P6,781,246,918</u></b>	<b><u>P6,956,667,459</u></b>

Mortgage loans pertain to receivables in housing loans secured by the property being financed by the loans and collectible in monthly amortizations. Interest rates range from 5.00% to 17.50% in both 2019 and 2018, with terms ranging from five to ten years.

Note receivable refers to long-term promissory note without collateral and earns prevailing market interest rate ranging from 6.00% to 24.00% in both 2019 and 2018, respectively.

HMO billback is due from healthcare cardholders under the Third Party Administration accounts or autobill back, wherein the Company initially pays for the medical expenses and subsequently bills the same to the cardholders plus service fee ranging from 7.00% to 12.50% and network access fee. These HMO related revenues are presented as part of Service Fees account in the statements of comprehensive income (see Note 29).

Policy loans pertain to loans issued to policyholders. The loans are issued with collateral of the cash surrender value of the policyholders insurance policies. Interest rates charged are 10.00% for peso and 8.00% for dollar-denominated policies.

Investment accounts receivable pertains mainly to receivables from the sale of investments and dividends receivable on the Company's investments in subsidiaries and an associate. This also includes the amount provided by variable life funds to the Company to partially fund its loan facility. Interest rates of investment accounts receivable range from 6.00% to 9.25% for both years 2019 and 2018.

Installment contract receivables pertain to the outstanding receivable on foreclosed properties sold to third parties. The interest rate ranges from 12.00% to 21.00% for both years 2019 and 2018 with terms ranging from 5 to 15 years in both years.

Collateral loans are loans collectible in monthly amortizations over a period of one to five years, including interest of 3.00% to 21.00%, secured by a chattel mortgage.

Advances to officers and employees are collected through payroll deductions or through expense liquidation.

Total interest income earned from the Company's loans and other receivables amounted to P721.84 million in 2019 and P774.69 million in 2018, and is presented as part of Interest income presented under Investment Income account in the statements of comprehensive income (see Note 28).

The carrying amount of loans and other receivables approximates its fair value as at December 31, 2019 and 2018.

The rollforward analyses of allowance for impairment losses on loans and other receivables are as follows:

	Note Receivable	Mortgage Loans	Investment Accounts Receivable	HMO Billback	Claims Receivable - Farmers	Collateral Loans	Advances to Officers and Employees	Total
Balance at January 1, 2019	P 138,208,707	P 4,354,285	P 13,107,049	P 268,443,207	P 24,508,525	P 5,082,343	P 4,824,943	P 458,529,059
Provisions during the year	14,425,074	-	-	-	-	-	-	14,425,074
Write-off	-	-	-	-	-	-	( 296,493 )	( 296,493 )
Reversal during the year	-	-	-	( 50,000,000 )	-	-	-	( 50,000,000 )
<b>Balance at December 31, 2019</b>	<b>P 152,633,781</b>	<b>P 4,354,285</b>	<b>P 13,107,049</b>	<b>P 218,443,207</b>	<b>P 24,508,525</b>	<b>P 5,082,343</b>	<b>P 4,528,450</b>	<b>P 422,657,640</b>
Gross amount of loans and receivables, individually deemed impaired	P 152,633,781	P 4,354,285	P 13,107,049	P 218,443,207	P 24,508,525	P 5,082,343	P 4,528,450	P 422,657,640
Balance at January 1, 2018	P 200,441,133	P 4,354,285	P 13,107,049	P 225,115,083	P 24,508,525	P 5,878,351	P 4,824,943	P 478,229,369
Provisions during the year	16,961,105	-	-	43,328,124	-	-	-	60,289,229
Write-offs during the year	( 79,900,000 )	-	-	-	-	-	-	( 79,900,000 )
Reclassifications during the year	706,462	-	-	-	-	( 796,002 )	-	( 89,540 )
<b>Balance at December 31, 2018</b>	<b>P 138,208,707</b>	<b>P 4,354,285</b>	<b>P 13,107,049</b>	<b>P 268,443,207</b>	<b>P 24,508,525</b>	<b>P 5,082,342</b>	<b>P 4,824,943</b>	<b>P 458,529,058</b>
Gross amount of loans and receivables, individually deemed impaired	P 138,208,707	P 4,354,285	P 13,107,049	P 268,443,207	P 24,508,525	P 5,082,342	P 4,824,943	P 458,529,058

In 2019 and 2018, the Company recognized provision for impairment losses amounting to P14.42 million and P60.29 million, respectively, based on the Company's assessment of the individual balances of different receivables. Such impairment losses were recognized as part of Impairment losses under General and Administrative Expenses account in the statements of comprehensive income (see Note 31).

## 12. ACCRUED INCOME

This account consists of:

	Note	2019	2018
Interest receivable		P 79,977,827	P 63,098,102
Allowance for impairment losses		( 245,480 )	( 245,480 )
		<b>79,732,347</b>	<b>62,852,622</b>
Dividend receivable	14	5,826,145	80,636
Rent receivable		<b>2,249,863</b>	<b>247,181</b>
		<b>P 87,808,355</b>	<b>P 63,180,439</b>

Interest receivable includes accrued interest arising from short-term investments, debt securities classified as financial assets at FVPL, debt securities under AFS financial assets, and loans and other receivables.

There was no movement in the allowance for impairment losses on accrued income in both 2019 and 2018.

### 13. REINSURANCE ASSETS

This account consists of:

	<u>2019</u>	<u>2018</u>
Reinsurers' share on legal policy reserves	P 5,092,594	P 5,054,048
Reinsurance recoverable on unpaid losses	<u>300,000</u>	<u>14,572,374</u>
Balance at end of year	<u>P 5,392,594</u>	<u>P 19,626,422</u>

The movements of reinsurance recoverable on unpaid losses are as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 14,572,374	P 36,377,421
Claims incurred during the year	5,818,207	13,732,014
Claims paid during the year	( 20,090,581)	( 35,537,061)
Balance at end of year	<u>P 300,000</u>	<u>P 14,572,374</u>

The movements of reinsurers' share on legal policy reserves are as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 5,054,048	P 5,244,688
Premiums received	7,717,004	10,774,597
Liability released for payments of death, maturity and surrender benefits and claims	( 7,678,458)	( 10,965,237)
Balance at end of year	<u>P 5,092,594</u>	<u>P 5,054,048</u>

### 14. INVESTMENTS IN SUBSIDIARIES AND AN ASSOCIATE

As of December 31, 2019 and 2018, this account consists of:

	<u>2019</u>	<u>2018</u>
Subsidiaries:		
UCPB Gen	P 651,794,875	P 651,794,875
Cocoplans	476,469,480	448,595,886
CAMCI	50,000,000	12,500,000
Ultra	13,983,155	13,983,155
Healthassist	<u>10,000,000</u>	<u>10,000,000</u>
	1,202,247,510	1,136,873,916
Associate –		
Direct Link	<u>4,000,000</u>	<u>4,000,000</u>
	1,206,247,510	1,140,873,916
Allowance for impairment losses	( 262,358,087)	( 211,476,967)
	<u>P 943,889,423</u>	<u>P 929,396,949</u>

The movement in the allowance for impairment loss is as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 211,476,967	P -
Impairment loss	50,881,120	227,671,752
Write-off	<u>-</u>	<u>(16,194,785)</u>
Balance at end of year	<u>P 262,358,087</u>	<u>P 211,476,967</u>

In 2019, the Company has a capital infusion with CAMCI and Cocoplans amounting to P37.50 million and P27.87 million, respectively, for a total amount of P65.37 million.

As of December 31, 2019, the Company assessed that its investments in Cocoplans is further impaired by P50.88 million. Management adjusted retroactively these impairment losses against the opening balance of Retained Earnings account as management believes that these investments and receivable were already impaired in prior years due to continuing losses of these subsidiaries.

In 2018, the Company assessed that its investment in Cocoplans was partially impaired by P211.48 million, while its investments in AMC and New Ultra amounting to P13.88 million and P2.32 million, respectively, are already fully impaired. In addition, management is of the opinion that its receivables from New Ultra amounting to P2.50 million as of December 31, 2018 was also impaired. Instead of charging the impairment losses in 2018 against profit or loss, management adjusted these impairment losses against the opening balance of Retained Earnings account as management believes that these investments and receivable were already impaired in prior years due to continuing losses of these subsidiaries.

The unaudited key financial information of the significant subsidiaries are as follows:

	<u>UCPB Gen</u>	<u>Cocoplans</u>	<u>Ultra</u>	<u>CAMCI</u>	<u>Healthassist</u>	<u>Total</u>
<b>2019</b>						
Total assets	P 4,817,166,000	P1,298,110,699	P 60,296,467	P 57,662,410	P 14,500,042	P 6,247,735,618
Total liabilities	3,440,149,000	1,303,134,628	35,832,202	5,142,425	553,445	4,784,811,700
Equity	1,377,017,000	( 5,023,929)	24,464,265	52,479,985	13,946,597	1,462,883,918
Revenues	3,424,790,000	680,305	222,122,000	47,812,235	10,069,801	3,707,474,341
Net income (loss)	110,620,000	( 54,752,771)	8,722,000	12,238,639	539,556	77,367,424
Other comprehensive income (loss)					931,243	931,243
Total comprehensive income (loss)	110,620,000	( 54,752,771)	8,722,000	12,238,639	1,470,799	78,298,668
<b>2018*</b>						
Total assets	P 4,770,298,770	P1,186,220,539	P 76,017,611	P 42,550,502	P 14,069,092	P 6,089,156,514
Total liabilities	3,479,875,624	1,164,365,292	34,545,688	22,309,156	1,593,295	4,702,689,055
Equity	1,290,423,146	21,855,247	41,471,923	20,241,346	12,457,798	1,386,467,460
Revenues	1,988,482,854	73,882,523	27,032,424	59,877,933	8,640,816	2,157,916,550
Net income (loss)	83,557,769	( 23,007,526)	10,704,133	18,071,139	348,203	89,763,718
Other comprehensive income (loss)	( 85,530,158)	( 12,721,956)				( 98,252,114)
Total comprehensive income (loss)	( 1,972,389)	( 35,729,482)	10,704,133	18,071,139	348,203	( 8,578,396)

\*These are unaudited balances.

Dividend income from the Company's subsidiaries and an associate amounted to P25.00 million and P25.45 million in 2019 and 2018, respectively, and is presented as part of Investment Income account in the statements of comprehensive income (see Note 28).

On the other hand, dividend receivable as of December 31, 2019 and 2018 is included as part of Accrued Income account and Investment accounts receivable under Loans and Other Receivables account in the statements of financial position (see Notes 12 and 11).

## 15. REAL ESTATE INVENTORIES

The movements in this account are as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 20,081,136	P 22,231,636
Disposals	( 2,381,5010)	( 2,150,500)
Balance at end of year	<u>P 17,699,636</u>	<u>P 20,081,136</u>

In 2019 and 2018, total gain from sale of columbary units amounted to P2.90 million and P3.62 million, respectively, and is presented as part of Other Income account in the statements of comprehensive income (see Note 28).

Management determined that these properties' NRV, which are higher than their costs, amounted to P24.78 million and P34.49 million as at December 31, 2019 and 2018, respectively. Management determines the properties' NRV based on the asset's estimated net selling price.

## 16. INVESTMENT PROPERTIES

The gross amounts and accumulated depreciation of investment properties at the beginning and end of 2019 and 2018 are shown below.

	<u>2019</u>	<u>2018</u>
Acquisition cost	P 959,112,153	P 923,081,600
Accumulated depreciation	( 109,684,329)	( 69,983,449)
Carrying amount	<u>P 849,427,824</u>	<u>P 853,098,151</u>

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2019 and 2018 is shown below.

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year, net of accumulated depreciation		P 853,098,151	P 879,610,777
Additions		57,519,905	84,625,576
Disposals		( 65,925,289)	( 84,380,777)
Reclassifications	17	44,435,937	-
Depreciation charges for the year	31	( 39,700,880)	( 26,757,425)
Balance at end of year, net of accumulated depreciation		<u>P 849,427,824</u>	<u>P 853,098,151</u>

As at December 31, 2019 and 2018, the estimated fair value of these investment properties amounted to P1.88 billion and P1.66 billion, respectively.

The fair values of investment properties were arrived at using the Market Data Approach and classified as Level 2 in the fair value hierarchy (see Note 6.5).

In 2019 and 2018, the Company sold investment properties with a carrying value of P53.27 million and P84.38 million, respectively. Gain on sale of investment properties in 2019 amounting to P8.63 million and loss on sale in 2018 amounting to P3.13 million was recognized under Investment Income in the statements of comprehensive income (see Note 28).

Rental income in 2019 and 2018 arising from the lease of investment properties amounted to P29.80 million and P22.98 million, respectively, which are presented as Rental Income under the Investment Income account in the statements of comprehensive income (see Note 28). Operating expenses, including depreciation expense, arising from these investment properties amounted to P39.70 million and P48.49 million in 2019 and 2018, respectively (see Note 31).

## 17. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of December 31, 2019 and 2018 are shown below:

	<u>Land</u>	<u>Building and Leasehold Improvements</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Total</u>
<b>December 31, 2019</b>					
Cost	P 12,665,400	P 255,241,823	P 92,515,892	P 246,716,197	P 607,139,312
Accumulated depreciation and amortization	-	( 206,175,634)	( 49,165,392)	( 196,971,813)	( 452,312,839)
<b>Net carrying amount</b>	<b><u>P 12,665,400</u></b>	<b><u>P 49,066,189</u></b>	<b><u>P 43,350,500</u></b>	<b><u>P 49,744,384</u></b>	<b><u>P 154,826,473</u></b>
<b>December 31, 2018</b>					
Cost	P 38,000,000	P 272,592,967	P 77,796,685	P 215,875,602	P 604,265,254
Accumulated depreciation and amortization	-	( 213,772,917)	( 45,378,527)	( 186,660,200)	( 445,811,644)
<b>Net carrying amount</b>	<b><u>P 38,000,000</u></b>	<b><u>P 58,820,050</u></b>	<b><u>P 32,418,158</u></b>	<b><u>P 29,215,402</u></b>	<b><u>P 158,453,610</u></b>
<b>January 1, 2018</b>					
Cost	P 38,000,000	P 260,975,036	P 72,241,685	P 207,995,807	P 579,212,528
Accumulated depreciation and amortization	-	( 200,136,536)	( 40,230,220)	( 178,484,185)	( 418,850,941)
<b>Net carrying amount</b>	<b><u>P 38,000,000</u></b>	<b><u>P 60,838,500</u></b>	<b><u>P 32,011,465</u></b>	<b><u>P 29,511,622</u></b>	<b><u>P 160,361,587</u></b>



A reconciliation of the carrying amounts of property and equipment at the beginning and end of December 31, 2019 and 2018 is shown below.

	<u>Land</u>	<u>Buildings and Leasehold Improvements</u>	<u>Transportation Equipment</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Total</u>
Balance at January 1, 2019 net of accumulated depreciation and amortization	P 38,000,000	P 58,820,049	P 32,418,159	P 29,215,402	P 158,543,610
Additions	-	38,933,406	23,195,000	31,715,321	93,843,727
Disposals	-	( 12,305,636 )	( 8,475,794 )	( 874,725 )	( 21,656,155 )
Transfers	( 25,334,600 )	( 19,101,337 )	-	-	( 44,435,937 )
Depreciation and amortization charges for the year	-	( 17,280,293 )	( 3,786,865 )	( 10,311,614 )	( 20,252,571 )
Balance at December 31, 2019 net of accumulated depreciation and amortization	<u>P 12,665,400</u>	<u>P 49,066,189</u>	<u>P 43,350,500</u>	<u>P 49,744,384</u>	<u>P 154,826,473</u>
Balance at January 1, 2018 net of accumulated depreciation and amortization	P 38,000,000	P 60,838,500	P 32,011,465	P 29,511,622	P 160,361,587
Additions	-	18,920,311	13,584,995	9,100,310	41,605,616
Disposals	-	( 3,735,369 )	( 4,015,000 )	( 517,405 )	( 8,267,774 )
Depreciation and amortization charges for the year	-	( 17,203,392 )	( 9,163,302 )	( 8,879,125 )	( 35,245,812 )
Balance at December 31, 2018 net of accumulated depreciation and amortization	<u>P 38,000,000</u>	<u>P 58,820,050</u>	<u>P 32,418,158</u>	<u>P 29,215,402</u>	<u>P 158,453,610</u>

In 2019, the Company has reclassified a portion of its building from Property and Equipment to Investment Property amounting to P44.44 million (see Note 16).

All the depreciation and amortization charges were reported as part of Depreciation and amortization under General and Administrative Expense account in the statements of comprehensive income (see Note 31).

The Company recognized a gain on disposal of property and equipment totalling P0.99 million and P0.38 million in 2019 and 2018, respectively (see Note 28).

As of December 31, 2019 and 2018, the gross carrying amount of the Company's fully depreciated property and equipment that are still in use is P441.20 million and P439.60 million, respectively.

## 18. LEASES

The Company has leases for certain office spaces. With the exception of short-term leases, each lease is reflected on the 2019 statement of financial position as a Right-of-use Assets (see Note 18.1) and Lease Liabilities (see Note 18.2). Variable lease payments which do not depend on an index or rate are excluded from the initial measurement of the right-of-use asset and lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantial termination fee. Some leases contain an option to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office spaces, the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The Company's leasing activities on office spaces have a remaining terms ranging from 1-54 months, with an average remaining lease term of 37 months.

### **18.1 Right-of-use Assets**

The carrying amount of the Company's right-of-use assets as at December 31, 2019 and the movements during the year are shown below.

	<u>Notes</u>		
Balance at the beginning of the year	2.2 (a)(iii)	P	43,037,448
Additions during the year			54,757,905
Amortization charges during the year	31		<u>(33,713,211)</u>
Balance at end of year		<b>P</b>	<b><u>64,082,142</u></b>

### **18.2 Lease Liabilities**

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities, which is recognized as Lease Liabilities in the 2019 statement of financial position as at December 31, 2019 of the Company are as follows:

Within one year	P	30,310,808
After one year but more than five years		<u>35,820,739</u>
	<b>P</b>	<b><u>66,131,547</u></b>

The total cash outflow in respect of leases amounted to P35.36 million. Interest expense in relation to lease liabilities amounted to P3.69 million, which is presented as Interest expense on lease liability under General and Administrative Expenses account the 2019 statement of comprehensive income (see Note 31).

### **18.3 Lease Payments Not Recognized as Liabilities**

The Company has elected not to recognize lease liabilities for short-term leases. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expenses relating to short-term leases amounted to P48.46 million which are presented as part of Rent expense and utilities under General and Administrative Expenses account in the 2019 statement of comprehensive income (see Note 31).

19. INTANGIBLE ASSETS

Intangible assets pertain to acquired computer software licenses used in operation and administration. The gross carrying amounts and accumulated amortization of intangible assets at the beginning and end of December 31, 2019 and 2018 follow:

	<u>2019</u>	<u>2018</u>
Acquisition cost	P 174,412,011	P 137,008,523
Accumulated amortization	( 133,538,760)	( 131,590,954)
Carrying amount	<u>P 40,873,251</u>	<u>P 5,417,569</u>

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018, of intangible assets is shown below.

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year, net of accumulated amortization		P 5,417,569	P 8,551,886
Additions		37,403,488	169,600
Amortization charges for the year	31	( 1,947,806)	( 3,303,917)
Balance at end of year, net of accumulated amortization		<u>P 40,873,251</u>	<u>P 5,417,569</u>

20. OTHER ASSETS

The composition of this account is shown below:

	<u>2019</u>	<u>2018</u>
Bureau of Internal Revenue (BIR) tax credits	P 226,888,713	P 183,002,335
Prepaid expense	208,828,699	97,118,026
Lease and leasehold deposits	33,853,442	29,974,275
Refundable deposits	20,307,123	20,176,180
Deferred charges	14,376,851	15,228,408
Contingency fund pool	7,682,511	7,657,578
Laboratory supplies inventory	3,304,880	3,052,349
Others	<u>4,395,340</u>	<u>4,943,698</u>
	<u>P 519,637,559</u>	<u>P 361,152,849</u>

Prepaid expense includes access fee paid on the bancassurance arrangement with UCPB Savings and UCPB entered by the Company in 2019 and 2018, respectively. In 2019 and 2018, the Company paid non-refundable access fee amounting to P105.00 million and P15.75 million, respectively. Non-refundable access fee pertains to the upfront access fee payable upon the signing of the agreement. In 2019, refundable access fee is paid to UCPB amounting to P105.00 million. Refundable access fee is related to the satisfaction of the performance targets set forth by both parties. Moreover, the earned portion are redeemable at the end of each year while the unearned portion will be refunded at the conclusion of the agreement period.

Refundable deposits are lease deposits that can be refunded at the end of the lease term. Lease and leasehold deposits consist of security lease deposits that can be applied at the end of the lease term.

## 21. INSURANCE CONTRACT LIABILITIES

The composition of this account is shown below.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Legal policy reserves	3.2(a)	<b>P15,114,055,929</b>	P13,214,041,992
Policy and contract claims	3.2(b)	<b><u>1,711,164,305</u></b>	<u>1,429,733,246</u>
		<b><u>P16,825,220,234</u></b>	<u>P14,643,775,238</u>

Total IBNR recognized by the Company amounted to P1,038.30 million and P804.08 million as at December 31, 2019 and 2018, respectively, which form part of Policy and contract claims account [see Note 3.2(b)]

The movements in legal policy reserves are as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	<b>P13,214,041,992</b>	P12,459,041,352
Premiums received	<b>6,250,754,128</b>	5,857,855,849
Liability released for payments of death, maturity and surrender benefits and claims	<b>( 6,179,461,655)</b>	( 5,461,319,752)
Accretion of investments income or change in unit prices	<b>1,073,217,718</b>	994,008,821
Adjustment due to change in assumptions Investment return	<b>887,600,924</b>	( 843,052,653)
Others	<b>( <u>132,097,178</u>)</b>	<u>207,508,375</u>
Balance at end of year	<b><u>P15,114,055,929</u></b>	<u>P13,214,041,992</u>

The movements in policy and contract claims are as follows:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year		<b>P 1,429,733,246</b>	P 1,184,420,826
Incurred during the year	30	<b>4,467,371,295</b>	3,671,872,292
Paid during the year		<b>( <u>4,185,940,236</u>)</b>	( <u>3,426,559,872</u> )
Balance at end of year		<b><u>P 1,711,164,305</u></b>	<u>P 1,429,733,246</u>

As at December 31, 2019 and 2018, assets held to cover unit-linked liabilities amounting to P1.48 billion and P1.31 billion, respectively, are held in the Company's separately managed funds, namely, Peso Fixed Income and Dollar Growth Fund, Dollar Bond Fund, Peso Equity Fund, Peso Fixed Income Fund and Peso Bond Fund (see Note 37).

22. RESERVE FOR POLICYHOLDERS' DIVIDENDS

The movements in this account is shown below.

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 191,724,568	P 174,761,440
Net increase during the year	<u>5,739,121</u>	<u>16,963,128</u>
Balance at end of year	<u>P 197,463,689</u>	<u>P 191,724,568</u>

23. PREMIUM DEPOSIT FUNDS

The composition of this account are shown below.

	<u>2019</u>	<u>2018</u>
Premium deposits	P 543,249,070	P 466,683,449
Premium deposit fund	59,537,724	68,392,720
HMO guarantee deposits	56,542,097	29,737,539
HMO guarantee deposits	41,808,352	63,495,975
Claims deposit	<u>18,169,444</u>	<u>18,104,217</u>
	<u>P 719,306,687</u>	<u>P 646,413,900</u>

24. INSURANCE PAYABLES

The movements in this account are shown below.

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 74,102,265	P 321,461,923
Incurred during the year	14,477,177	24,086,301
Paid during the year	( 47,987,312)	( 271,447,638)
Foreign exchange loss	<u>28,035</u>	<u>1,679</u>
Balance at end of year	<u>P 40,620,165</u>	<u>P 74,102,265</u>

25. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES

These accounts consist of:

	<u>2019</u>	<u>2018</u>
Accounts payable and accrued expenses:		
Accounts payable	P1,005,599,030	P 622,370,156
Accrued incentives and bonuses	214,111,712	207,015,152
Loading payables	152,841,928	345,818,965
Supplementary contracts		
without life contingency	32,189,395	33,174,217
Investment accounts payable	13,597,172	311,652,098
Agents' fidelity and annuity reserves	<u>3,657,919</u>	<u>3,552,839</u>
	<u>P1,421,997,156</u>	<u>P1,523,583,427</u>

	<u>2019</u>	<u>2018</u>
Other liabilities:		
Deferred credits	P 42,135,205	P 81,213,009
Taxes payable	33,391,231	48,323,891
Others	<u>43,674,011</u>	<u>15,282,942</u>
	<u>P 119,200,447</u>	<u>P 144,819,842</u>

Accounts payable consists mainly of unpaid commissions, supplies, utilities, postal and communication, professional fees, repairs and maintenance, and security services that are due and demandable.

Investments accounts payable represent funds received from both related parties and third parties to partially fund its loan financing facility. These amounts charge interest ranging from 6.00% to 9.25% in 2019 and 2018, respectively. Interest expense incurred on these loans amounted to P158.27 million and P180.94 million in 2019 and 2018, respectively was presented under Investment expenses in the statements of comprehensive income (see Note 28).

Accrued incentives and bonuses represent amounts payable to employees computed based on current salary and length of service. These amounts are due to be paid within one year after the reporting date.

Loading payables refer to the portion of gross premium due and uncollected which is expected to be paid out in the form of commission, service fees, overrides and taxes.

Supplementary contracts without life contingency represent claims which are held by the Company and are paid in monthly installments in the form of pension benefits. These claims earn interest of 6.06% annually.

Agents' fidelity and annuity reserves represent amounts withheld from agents which are refunded upon resignation or termination.

Taxes payable consist mainly of Value-Added Tax (VAT) payable, withholding taxes from the employees' compensation and purchases from suppliers which are subsequently remitted within one month after the reporting date.

Deferred credits represent reservation deposits which are refunded upon consumption of sale of investment properties and real estate inventories.

Others under Other liabilities in the statements of financial position are noninterest-bearing liabilities and are due and demandable.

## 26. EQUITY

### 26.1 Capital Stock

As at December 31, 2019 and 2018, the Company has authorized shares of 1,000,000,000 and has issued and outstanding shares amounted to P550.00 million with a par value of P1 per share.

As of December 31, 2019 and 2018, the Company has 254,615 stockholders owning 100 or more shares each of the Company's capital stock.

## 26.2 Retained Earnings

As at December 31, 2019, the Company's unappropriated retained earnings of P3.38 billion is in excess of its paid-up capital of P550.00 million. The Company's plan to use the excess retained earnings is dependent on the impact of the following to the Company:

- a. IC's directive to calculate the reserves for traditional life insurance policies using the GPV; and,
- b. Amendments currently being implemented by the IC with respect to the risk based capital requirement.

As at December 31, 2019 and 2018, the Company has appropriated retained earnings amounting to P54.14 million and P61.66 million, respectively. This is equivalent to the negative legal policy reserves calculated on traditional life insurance policies as mandated by IC through its issuance of CL No. 2016-66 (see Note 2.20).

As of December 31, 2019 and 2018, the unappropriated retained earnings of the Company has already exceeded the paid-in capital stock. This violates Section 43 of the Corporation Code, which specifically indicates that "stock corporations are prohibited from retaining surplus profits in excess of 100 percent of their paid-in capital stock, except: (1) when justified by definite corporate expansion projects or programs approved by the BOD; or (2) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its/ his consent, and such consent has not yet been secured; or (3) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is a need for special reserve for probable contingencies."

Accordingly, on May 22, 2018, the Company submitted a letter to SEC to seek consideration and exemption on assessments or penalties pertaining to the said violation, until such time that the ownership issue of the Company is resolved by the Courts and its stockholders are clearly identified. This is in relation to the pending case wherein Government is claiming 100% ownership of Cocolife, on the ground that the Company was allegedly formed using coco levy funds which are public funds.

In view of the pendency of the case and until final determination by the Courts on the issue of ownership of the Company, the Company is hard put to comply with Section 43, as well as with Section 50 of the Corporation Code, *Regular and special meetings of stockholders or members*, in a quandary on whom to make dividend declarations. However, despite of the violation of Section 50, the Company is still substantially compliant as the Company is classified by the Governance Commission as a Government-Owned and Controlled Corporation, under supervision of Presidential Commission on Good Government, which oversight the Company's operations to ensure that the interests of the stockholders are protected.

27. NET INSURANCE PREMIUMS

	<u>2019</u>	<u>2018</u>
Direct:		
Accident and health	P4,199,495,841	P3,551,815,385
Group life insurance	1,456,440,236	1,433,460,859
Ordinary life insurance	1,138,851,214	1,292,599,840
Unit-linked	<u>165,096,459</u>	<u>142,021,230</u>
	6,959,883,750	6,419,897,314
Assumed group life insurance	<u>113,102,620</u>	<u>114,827,244</u>
	<b><u>P7,072,986,370</u></b>	<b><u>P6,534,724,558</u></b>
Reinsurance premiums ceded:		
Group life insurance	P 1,769,064	P 13,437,758
Ordinary life insurance	6,889,906	11,033,728
Accident and health	<u>-</u>	<u>( 385,185)</u>
Total reinsurers' share of life insurance contract premium reserve	<b><u>P 8,658,970</u></b>	<b><u>P 24,086,301</u></b>

28. INVESTMENT INCOME, INVESTMENT EXPENSES AND OTHER INCOME

Investment income account consists of:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Interest income on:			
Loans and other receivables	11	P 721,838,574	P 774,692,930
AFS financial assets	10	148,351,615	99,439,865
Cash and cash equivalents	7	127,921,721	54,630,863
Financial assets at FVPL	9	11,815,793	14,327,002
Others:			
Gain on sale of AFS financial assets	10	159,082,792	117,382,762
Dividend income	9, 10, 14	109,752,584	105,680,467
Unrealized fair value gains (losses) on financial assets at FVPL	9	84,192,762	( 65,430,684)
Rental income	16	29,802,733	22,976,342
Gain (loss) on sale of financial assets at FVPL	9	82,158	( 9,954,084)
Gain (loss) on sale of investment properties	16	<u>8,634,227</u>	<u>( 3,127,934)</u>
		<b><u>P 1,401,474,959</u></b>	<b><u>P 1,110,617,529</u></b>



Investment expenses account consists of:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Interest expense	25	<b>P 158,275,046</b>	P 180,942,800
Foreclosed property		<b>15,097,575</b>	21,732,711
Management fee		<b>11,558,656</b>	12,262,199
Others	40(b)	<u><b>80,187,160</b></u>	<u>18,927,986</u>
		<u><b>P 265,118,437</b></u>	<u>P 233,865,696</u>

Other income account consists of:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Income from variable life funds		<b>P 499,778,276</b>	P 943,181,770
Gain on sale of real estate inventories	15	<b>2,909,714</b>	3,620,250
Gain on sale of property and equipment	17	<u><b>997,999</b></u>	<u>379,225</u>
		<u><b>P 503,685,989</b></u>	<u>P 947,181,245</u>

## 29. SERVICE FEES

This account consists of:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
HMO fees	11	<b>P 406,435,709</b>	P 355,433,326
Policy fees		<b>24,040,771</b>	15,762,040
Cancellation fees		<u><b>8,167,989</b></u>	<u>7,127,288</u>
		<u><b>P 438,644,469</b></u>	<u>P 378,322,654</u>

## 30. NET INSURANCE BENEFITS AND CLAIMS

Gross benefits and claims paid on insurance contracts consist of:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Accident and health		<b>P3,211,883,803</b>	P2,513,324,669
Group life insurance		<b>751,572,202</b>	770,856,372
Maturities and surrenders		<b>416,812,118</b>	316,351,848
Ordinary life insurance		<u><b>87,103,172</b></u>	<u>71,339,403</u>
	21	<u><b>P4,467,371,295</b></u>	<u>P 3,671,872,292</u>

Reinsurers' share of gross insurance contract benefits and claims paid in 2018 is P9.66 million and P4.07 million for Group life insurance and Accidental and health, respectively (nil in 2019).

Changes in life insurance contract liabilities follow:

	<u>Gross change in Insurance Contract Liabilities</u>	<u>Reinsurers' Share of Change in Insurance Contract Liabilities</u>	<u>Total</u>
<b>2019</b>			
Ordinary life insurance	P 756,368,007	P 38,546	P 756,406,553
Accident and health	215,042,365	-	215,042,365
Group life insurance	40,184,018	-	40,184,018
Foreign exchange loss	<u>21,102,441</u>	<u>-</u>	<u>21,102,441</u>
	<b><u>P1,032,696,831</u></b>	<b><u>P 38,546</u></b>	<b><u>P 1,032,735,377</u></b>
<b>2018</b>			
Ordinary life insurance	P1,486,906,885	P 190,638	P 1,487,097,523
Accident and health	159,411,416	-	159,411,416
Group life insurance	91,341,343	-	91,341,343
Foreign exchange loss	<u>( 28,161,581 )</u>	<u>-</u>	<u>( 28,161,581 )</u>
	<b><u>P1,709,498,063</u></b>	<b><u>P 190,638</u></b>	<b><u>P 1,709,688,701</u></b>

### 31. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Insurance cost		P 509,122,704	P 116,506,817
Salaries and employee benefits	32.1	463,275,871	455,008,069
HMO miscellaneous expenses		296,595,295	290,091,860
Advertising and promotions		175,907,382	119,037,532
Depreciation and amortization	16, 17, 18	86,575,492	43,684,508
Utilities		57,335,051	58,951,437
Rent expense	18, 36	48,459,851	79,432,070
Training and development		33,949,030	21,045,250
Printing and office supplies		30,849,772	28,713,344
Professional fees		30,591,294	15,309,238
Service fees		24,406,117	15,523,620
Postage and telephone		23,822,444	20,867,988
Taxes and licenses	40(d)	22,390,439	18,458,771
Repairs and maintenance		20,187,456	19,983,654
Meeting and conferences		18,113,353	17,451,635
Entertainment, amusement and recreation		17,392,939	12,294,813
Transportation and travel		15,236,590	13,602,399
Impairment losses	10, 11, 16	14,423,571	127,422,933
Donations and contributions		8,500,000	3,475,000
Directors' fees		7,715,707	6,258,120
Insurance		5,688,954	4,585,018
Interest expense on lease liability	18	3,697,558	-
Medical fees		1,321,828	1,609,504
Condominium dues		1,144,122	762,141
Agency development allowance		418,532	715,011
Bancassurance expenses		21,895	594,956
Miscellaneous expense		<u>8,578,820</u>	<u>7,987,566</u>
		<b><u>P 1,925,722,067</u></b>	<b><u>P 1,499,373,254</u></b>

Miscellaneous expenses pertain to inspection and investigation expenses, collection fees, referral fees and other expenses.

32. EMPLOYEE BENEFITS

**32.1 Salaries and Employee Benefits Expense**

Details of salaries and employee benefits are presented below.

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Salaries and wages		P 400,941,727	P 243,758,405
Other short-term employee benefits		10,582,307	150,666,859
Retirement benefit	32.2	<u>51,751,837</u>	<u>60,582,805</u>
	31	<u>P 463,275,871</u>	<u>P 455,008,069</u>

**32.2 Retirement Benefit**

(i) *Characteristics of the Defined Benefit Plan*

The Company has a funded, non-contributory, defined benefit plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2019. Valuations are obtained on a periodic basis.

The plan is registered with the BIR as a tax-qualified plan under Republic Act (RA) No. 4917 *An Act Providing That Retirement Benefits of Employees of Private Firms Shall Not Be Subject to Attachment, Levy, Execution, or Any Tax Whatsoever*, as amended. The control and administration of the plan is vested in the BOD. The plan's accounting and administrative functions are undertaken by the Company's Retirement Funds Office.

(ii) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below for the years ended December 31, 2019 and 2018 are based on the actuarial report obtained from an independent actuary in both years.

The amounts of retirement benefit obligation recognized in the statements of financial position are determined as follows:

	<u>2019</u>	<u>2018</u>
Present value of retirement benefit obligation	P 839,721,426	P 671,305,716
Fair value of plan assets	<u>( 709,657,217)</u>	<u>( 571,974,076)</u>
	<u>P 130,064,209</u>	<u>P 99,331,640</u>

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

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 671,305,716	P 727,553,338
Current service cost	44,460,894	49,527,699
Interest expense	49,273,840	40,888,498
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	159,739,415	( 106,205,363)
Experience adjustments	( 25,621,390)	26,620,233
Benefits paid	( 59,437,049)	( 67,078,689)
Balance at end of year	<u>P 839,721,426</u>	<u>P 671,305,716</u>

The movements in the fair value of plan assets are presented below.

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 571,974,076	P 530,843,269
Interest income	41,982,897	29,833,392
Contributions paid by employer	140,609,560	146,018,246
Return on plan assets (excluding amounts included in net interest cost or income)	14,527,733	( 67,642,142)
Benefits paid	( 59,437,049)	( 67,078,689)
Balance at end of year	<u>P 709,657,217</u>	<u>P 571,974,076</u>

The plan earned a return of P56.51 million in 2019 and incurred a negative return of P37.81 million in 2018.

The Company's plan assets are maintained and consolidated under the Group Plan. The composition of the fair value of the plan assets at the end of the reporting period by category and risk characteristics is shown below.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	P 183,817,527	P 107,409,622
Available-for-sale securities:		
Equity investments	278,300,833	292,154,357
Debt instruments	210,203,033	170,568,200
Financial assets at amortized cost	34,928,498	2,103,761
Accrued interest income from financial assets	2,148,059	-
Other assets	620,910	-
Accounts payable and accrued expenses	( 361,643)	( 261,864)
	<u>P 709,657,217</u>	<u>P 571,974,076</u>

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

Plan assets do not comprise any of the Company's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit retirement plan are as follows:

	<u>2019</u>	<u>2018</u>
<i>Reported in profit or loss:</i>		
Current service cost	P 44,460,894	P 49,527,699
Net interest cost	<u>7,290,943</u>	<u>11,055,106</u>
	<b><u>P 51,751,837</u></b>	<b><u>P 60,582,805</u></b>
<i>Reported in other comprehensive income:</i>		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	P 159,739,415	(P 106,205,363)
Experience adjustments	( 25,621,276)	26,620,233
Return on plan assets (excluding amounts included in net interest cost or income)	( <u>14,527,217</u> )	<u>67,642,142</u>
	<b><u>P 119,590,922</u></b>	<b><u>(P 11,942,988)</u></b>

Current service cost is included as part of Salaries and employee benefits under General and Administrative Expenses account in the statements of comprehensive income (see Note 31). The net interest expense or net interest income is lumped or netted against the Interest expense under Investment Expenses account in the statements of comprehensive income (see Note 28).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit retirement obligation, the following significant actuarial assumptions were used and applied to the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Discount rates	4.97%	7.34%
Expected rate of salary increases	6.00%	6.00%

Assumptions regarding the mortality and disability rates used were based on the 1980 CSO Mortality Table and 1952 Ben-5 Disability Study, respectively.

The weighted-average duration of the defined benefit obligation is 31.60 years and 31.64 years as at December 31, 2019 and 2018, respectively.

*(iii) Risks Associated with the Retirement Plan*

The plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(iv) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

(v) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(vi) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Company's ALM strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(vii) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2019 and 2018:

	<u>Impact on Retirement Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>December 31, 2019</u>			
Discount rate	+/- 1%	(P 75,095,399)	P 91,292,837
Salary growth rate	+/- 1%	88,240,163	( 75,058,289)
<u>December 31, 2018</u>			
Discount rate	+/- 1%	(P 50,104,833)	P 58,654,713
Salary growth rate	+/- 1%	59,025,619	( 52,273,111)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(viii) *ALM Strategies*

To efficiently manage the retirement plan, the Company ensures that the investment positions are managed in accordance with its ALM strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government) with maturities that match the benefit payments as they fall due and in the appropriate currency.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A significant portion of the plan assets as of December 31, 2019 and 2018 consist of equity and debt securities. The Company believes that debt securities offer the best returns over the long term with an acceptable level of risk although the Company also invests in equity securities and cash and cash equivalents.

There has been no change in the Company's strategies to manage its risks from previous periods.

(ix) *Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P130.06 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk when a significant number of employees is expected to retire.

The Company expects to make contribution of P99.00 million to the plan during the next reporting period.

### 33. INCOME TAX

#### *33.1 Current and Deferred Taxes*

The components of tax expense as reported in the profit or loss and other comprehensive income for the years ended December 31 are as follows:

	<u>2019</u>	<u>2018</u>
<i>Reported in profit and loss</i>		
Current tax expense:		
Regular corporate income tax (RCIT) at 30%	P 31,564,478	P 31,823,523
Final tax at 20% and 7.50% in 2019 and 15% in 2018	<u>59,433,913</u>	<u>31,512,112</u>
	<u>90,998,391</u>	63,335,635
Deferred tax expense (income) relating to origination and reversal of temporary differences	<u>1,947,430</u>	<u>3,879,866</u>
	<u>P 92,945,821</u>	<u>P 67,215,501</u>

*Reported in other comprehensive income*

Deferred tax expense (income) on:		
Reserve for fluctuation on AFS financial assets	(P 569,040,696)	P 63,346,391
Remeasurement of net pension liability	( 35,877,088)	3,582,896
	<u>(P 604,917,784)</u>	<u>P 66,929,287</u>

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense is as follows:

	<u>2019</u>	<u>2018</u>
Tax on pretax profit at 30%	P 244,128,375	P 199,091,112
Adjustment for income subject to lower tax rate	( 30,012,825)	( 15,896,104)
Tax effects of:		
Non-taxable income	( 121,169,729)	( 123,522,597)
Non-deductible expenses		25,310,140
Application of unrecognized allowance for impairment losses	-	( 13,854,234)
Application of unrecognized Minimum Corporate Income Tax (MCIT)	-	( 3,912,816)
	<u>P 92,945,821</u>	<u>P 67,215,501</u>

The net deferred tax liabilities relate to the following as of December 31:

	Statements of Financial Position		Statements of Comprehensive Income			
			Profit or Loss		Other Comprehensive Income	
	2019	2018	2019	2018	2019	2018
<i>Deferred tax assets</i>						
Unamortized past service cost	P 81,555,960	P 64,463,785	P 17,092,175	P 19,587,041	P -	P -
Allowance for impairment losses	69,443,387	65,116,316	4,327,071	2,882,671	-	-
Net pension liability	39,019,263	29,799,492	( 26,657,317)	( 25,630,632)	( 35,877,088)	( 3,582,896)
Right-of-use asset	11,223,231	-	11,223,231	-	-	-
Others	<u>13,864,214</u>	<u>13,864,214</u>	-	-	-	-
	<u>215,106,055</u>	<u>173,243,807</u>	<u>5,985,160</u>	<u>( 3,160,920)</u>	<u>( 35,877,088)</u>	<u>( 3,582,896)</u>
<i>Deferred tax liabilities</i>						
Reserve for fluctuation of AFS financial assets	-	569,040,696	-	-	569,040,696	( 63,346,391)
Lease liability	10,608,409	-	10,608,409	-	-	-
Unrealized foreign exchange gains	( 1,617,022)	1,058,797	( 2,675,819)	718,946	-	-
	<u>8,991,387</u>	<u>570,099,493</u>	<u>7,932,590</u>	<u>718,946</u>	<u>569,040,696</u>	<u>( 63,346,391)</u>
Net deferred tax assets (liabilities) - net	<u>P 206,114,668</u>	<u>( P 396,855,686)</u>	<u>P 1,947,430</u>	<u>P 3,879,866</u>	<u>P 604,917,784</u>	<u>( P 66,929,287)</u>
Deferred tax income (expense) - net			<u>P 1,947,430</u>	<u>P 3,879,866</u>	<u>P 604,917,784</u>	<u>( P 66,929,287)</u>

The Company is subject to MCIT, which is computed at 2% of gross income, as defined under the tax regulations, or RCIT whichever is higher. No MCIT was reported in 2019 and 2018 as the RCIT was higher than the MCIT in both years.

In 2019 and 2018, the Company opted to claim itemized deductions in computing for its income tax due.



### 34. RELATED PARTY TRANSACTIONS

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel (KMP) of the Company are also considered to be related parties.

The Company's transactions with related parties are as follows:

	<u>Year</u>	<u>Note</u>	<u>Amount of Transaction</u>	<u>Due from Related Parties</u>	<u>Due to Related Parties</u>	<u>Terms and Conditions</u>
<b>United Fund, Inc. (UFI) – under Common Control</b>						
Investments collected in behalf of UFI	2019	34a	P -	P -	P 3,000	Due and demandable; non-interest bearing; unsecured
	2018	34a	203,000	-	340,961	
<b>Cocolife Fixed Income Fund, Inc. (CFIFI) - under Common Control</b>						
Investment collected on behalf of CFIFI	2019	34c	-	-	18,500	Due and demandable; non-interest bearing; unsecured
	2018	34c	227,440	-	911,816	
Loans payable	2019	34c	-	-	-	Due and demandable; non-interest bearing; unsecured
	2018	34c	( 1,174,141)	-	-	
<b>Cocolife Dollar Fund Builder, Inc. (CDFBI) – under Common Control</b>						
Centralized administrative services	2019	34b	-	-	-	Due and demandable; non-interest bearing; unsecured
	2018	34b	-	217,900	-	
<b>CAMCI - Subsidiary</b>						
Allocation of expenses for centralized personnel and technical services	2019	34b	2,929,063	2,725,263	-	Due and demandable; non-interest bearing; unsecured
	2018	34b	5,046,246	5,046,426	-	
<b>Cocoplans - Subsidiary</b>						
Advances	2019	34d	-	4,142,769	-	Due and demandable; non-interest bearing; unsecured
	2018	34d	744,889	3,971,049	-	
<b>TOTAL</b>	2019		<b>P 2,929,063</b>	<b>(P 6,868,032)</b>	<b>(P 21,500)</b>	
	2018		<b>P 5,047,434</b>	<b>(P 9,235,375)</b>	<b>(P 1,252,777)</b>	

Notes:

- 34a. These amounts pertain to the investments that were received by the Company that will be remitted to the fund.
- 34b. These pertain to common expenses initially paid by the fund and then subsequently reimbursed by the Company.
- 34c. These pertain to the amount to be remitted by CFIFI to the Company arising from the interest income on loans.
- 34d. These are cash advances provided or received by the Company from related parties.
- 34e. The Company provides group insurance to the employees of UCPB GEN and ceded premiums related to accident and health insurance. Other transactions include billings to cover share in common expenses and lease of office premises by UCPB GEN in some of the Company's branches.

The items discussed above are presented in the statements of financial position as:

- a. 34a and 34c - Investments Accounts Payable under Accounts payable and accrued expenses account;
- b. 34b and 34e - Investments Accounts Receivable under Loans and other receivables account;
- c. 34d - Other Advances under Loans and other receivables account.

Compensation of KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director, whether executive or otherwise, of that entity.

The KMP compensation is as follows:

	<u>2019</u>	<u>2018</u>
Short-term employee benefits	<b>P 91,417,991</b>	P 73,956,639
Post-employment benefits	<u>11,227,459</u>	<u>9,069,064</u>
	<b><u>P 102,645,450</u></b>	<b><u>P 83,025,703</u></b>

The retirement fund neither provides any guarantee or surety for any obligation of the Company nor its investments covered by any restrictions or liens.

### 35. EVENTS AFTER THE REPORTING PERIOD

In December 2019, a novel strain of corona virus (COVID-19) was reported to have surfaced in China. The World Health Organization has declared the outbreak as a 'public health emergency of international concern. COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of enhanced quarantine and social distancing measures and restrictions within the Luzon area with other cities and provinces in the country enacting similar measures thereafter. This resulted in a wide-ranging business suspension - disrupting the supply chains, affecting production and sales across a range of industries, and weakening the stock market. However, the Company's operations are still ongoing during the implementation of the enhanced quarantine.

While the disruption is currently expected to be temporary, management expects the suspension of businesses to negatively impact the Company's financial condition and results of operations. Nonetheless, the Company's Group and Healthcare division are still doing business. Moreover, COVID-19 cases are covered by Company's health insurance. The economic slowdown and significant volatility of the stock market caused by the outbreak resulted in significant decline in the fair value of the Company's equity securities portfolio amounting to P1,024.12 million since the beginning of January 2020 until March 27, 2020, the date when the financial statements were authorized for issue. While the government and the central bank have reacted with monetary interventions designed to stabilize the economic condition, the duration and extent of the impact of the COVID-19 outbreak, as well as the effectiveness of such responses, remains unclear at this time.

In support and compliance with the government measures to protect the welfare and interest of the Company's employees and stakeholders, including its counterparties, the Company has implemented safety measures and activated its business continuity procedures. Management believes that these measures can mitigate the further negative impact of the outbreak to the Company's business and to its financial condition and performance.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, their impact was not reflected in the Company's financial statements as of and for the year ended December 31, 2019.

## 36. COMMITMENTS AND CONTINGENCIES

### 36.1 Leases

The Company, as a lessee and a lessor, has entered into non-cancellable and renewable leases with terms between one to 10 years and payment on a monthly basis from the date of the contracts. Some of these lease agreements provide for an escalation in the rental rates ranging from 2.00% to 10.00%. None of the leases includes contingent rentals and restrictions.

#### (a) Operating Lease Commitments – the Company as a Lessee (2018)

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2018 is shown below.

	<u>2018</u>
Within one year	P 14,951,462
More than one year but not more than five years	<u>57,473,249</u>
	<u>P 72,424,711</u>

Rent expense presented under General and Administrative Expenses in profit or loss amounted to P79.42 million as at December 31, 2018 (see Note 31).

#### (b) Operating Lease Commitments – the Company as a Lessor

Future minimum rentals receivable under non-cancellable operating leases as at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Within one year	P 17,538,812	P 18,361,755
After one year but not more than five years	<u>29,981,552</u>	<u>26,805,851</u>
	<u>P 47,520,364</u>	<u>P 45,167,606</u>

The Company's rent income is presented under Investment income (see Note 28).

### 36.2 Others

There are contingent liabilities that may arise in the normal course of the Company's operations which are not reflected in the financial statements. As at December 31, 2019 and 2018, management is of the opinion that losses, if any, from those items will not have a material effect on the Company's financial statements.

## 37. UNIT-LINKED FUNDS

The Company issues unit-linked insurance contracts where payments to policyholders are linked to internal investment funds set up. The details of these internal investments funds, which comprise the assets backing the unit-linked liabilities, are presented in the tables in the succeeding pages. The assets, liabilities, income and expenses of these internal investment funds have been reflected in the appropriate accounts in the financial statements.

### Guaranteed Funds

Guaranteed funds offered to unit-linked policyholders are available in one year and 3-year maturity periods. Unit-linked policyholders are allowed to allocate up to maximum of ninety percent (90%) of the policy's investible funds to any one of these funds and the remaining portion to any of the unitized funds. The income earned by the funds is based on fixed interest rates that the Company has declared at the time of investment. The interest declared by the Company is net of any fees necessary to manage the funds. In the case of fund withdrawal before the chosen maturity date, corresponding penalties are charged on the interest earned. Presented below are the details of the assets and liabilities of the peso guaranteed funds.

	Dollar Guaranteed Fund	Peso Guaranteed Fund	Peso Medium Term Guaranteed Fund	Peso Long Term Guaranteed Fund	Total
<b>2019</b>					
<b>Assets</b>					
Cash and cash equivalents	P 54,665,504	P 648,303,296	P 450,038,221	P 3,022,050	P 1,156,029,071
Financial assets at FVPL	279,474,616	884,150,967	561,359,161	-	1,724,984,744
Loans and other receivables	456	1,015,019,230	1,024,110,509	-	2,039,130,195
Accrued income	<u>2,693,917</u>	<u>5,912,800</u>	<u>4,051,522</u>	<u>6,372</u>	<u>12,664,611</u>
<b>Total</b>	<b><u>P 336,834,493</u></b>	<b><u>P 2,553,386,293</u></b>	<b><u>P 2,039,559,413</u></b>	<b><u>P 3,028,422</u></b>	<b><u>P 4,932,808,621</u></b>
<b>Liabilities</b>					
Insurance contract liabilities	P 250,618,970	P 2,449,170,106	P 1,942,348,355	P -	P 4,642,137,431
Accounts payable and accrued expenses	<u>165,742</u>	<u>227,021</u>	<u>-</u>	<u>-</u>	<u>392,770</u>
<b>Total</b>	<b><u>P 250,784,719</u></b>	<b><u>P 2,449,397,127</u></b>	<b><u>P 1,942,348,355</u></b>	<b><u>P -</u></b>	<b><u>P 4,642,530,201</u></b>
<b>Guaranteed interest rates</b>	<b>2.00%</b>	<b>4.50%</b>	<b>5.00%</b>	<b>-</b>	<b>-</b>
<b>2018</b>					
<b>Assets</b>					
Cash and cash equivalents	P 54,034,007	P 508,310,709	P 513,238,108	P 2,895,559	P 1,078,478,383
Financial assets at FVPL	276,325,646	1,413,149,820	444,887,540	-	2,134,363,006
Loans and other receivables	-	286,158,458	892,787,292	-	1,178,945,750
Accrued income	<u>3,650,969</u>	<u>16,977,964</u>	<u>5,335,813</u>	<u>10,173</u>	<u>25,974,919</u>
<b>Total</b>	<b><u>P 334,010,622</u></b>	<b><u>P 2,224,596,951</u></b>	<b><u>P 1,856,248,753</u></b>	<b><u>P 2,905,732</u></b>	<b><u>P 4,417,762,058</u></b>
<b>Liabilities</b>					
Insurance contract liabilities	P 277,309,433	P 2,163,841,385	P 1,804,786,778	P -	P 4,245,937,596
Accounts payable and accrued expenses	<u>8,619</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,619</u>
Due to General Account	<u>1,053</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,053</u>
<b>Total</b>	<b><u>P 277,319,105</u></b>	<b><u>P 2,163,841,385</u></b>	<b><u>P 1,804,786,778</u></b>	<b><u>P -</u></b>	<b><u>P 4,245,947,268</u></b>
<b>Guaranteed interest rates</b>	<b>2.00%</b>	<b>4.50%</b>	<b>5.00%</b>	<b>-</b>	<b>-</b>

### Growth Funds

This is a unitized variable fund available only in conjunction with the 3-year Peso Medium Term Fund. The performance of the fund is reflected by the Net Asset Value computed at the end of each trading day. The Peso Income and Growth Fund seeks to maximize interest income, consistent with its policy to preserve capital, through a diversified portfolio of high-grade bonds and/or evidences of debt of the Philippine government-owned or controlled corporations, solvent corporations and institutions.

### Dollar Bond Fund

This is a unitized variable fund available for dollar investments together with the Dollar Guaranteed Fund. The fund seeks to generate regular interest income, consistent with its policy to preserve capital and to maintain liquidity of its investments. The fund is invested primary in dollar-denominated fixed-income instruments ranging from debentures, money market instruments and government securities.

*Peso Equity Fund*

This is unitized variable fund available for peso investments and may be chosen together with the Peso Guaranteed Fund and Peso Bond Fund. The fund seeks to maximize income consistent with its policy to preserve capital and to maintain liquidity of investments through a diversified portfolio of high-quality listed equity issues-blue chips and growth stocks listed in the Philippine Stocks Exchange.

*Peso Fixed Income Fund*

This is a unitized variable fund available for peso investments and may be chosen together with the Peso Guaranteed Fund and Peso Equity Fund. The fund seeks to generate regular interest income, consistent with its policy to preserve capital and maintain liquidity of investment through a diversified portfolio of high grade bonds and evidence of debt of solvent corporations and institutions.

*Peso Bond Fund*

This is a unitized variable fund which aims to provide regular interest income, consistent with its policy to preserve capital and to maintain liquidity of its investments, through a diversified portfolio such as Treasury Notes/Bills, Certificates of Indebtedness issued by the Bangko Sentral ng Pilipinas and other government securities or bonds and other evidences of indebtedness or obligations, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines or any of its instrumentalities. Duration of Peso Bond Fund's investment will be mostly between medium and long-term.

Presented below are the details of the Company's unitized variable funds.

		Peso Income and Growth Fund	Peso Dollar Bond Fund	Peso Equity Fund	Peso Fixed Income Fund	Peso Bond Fund	Total
<b>2019</b>							
<b>Assets</b>							
Cash and cash equivalents	P	136,094,271	P 61,828,167	P 94,229,925	P 346,547,551	P 2,150,616	P 640,850,530
Financial assets at FVPL		72,152,859	40,802,189	174,115,023	261,633,177	138,106,681	686,809,929
Loans and other receivables		833,476	5,470,053	1,559,037	140,627,330	9,114	148,499,010
Accrued income		605,747	414,052	253,303	1,852,270	1,877,756	5,003,128
		<b>P 209,686,353</b>	<b>P 108,514,461</b>	<b>P 270,157,288</b>	<b>P 750,660,328</b>	<b>P 142,144,167</b>	<b>P 1,481,162,597</b>
<b>Liabilities</b>							
Insurance contract liabilities	P	208,062,068	P 100,383,919	P 259,765,599	P 742,406,550	P 136,309,579	P 1,446,926,715
Accounts payable and accrued expenses		351,881	-	1,291,174	1,263,938	68,167	2,975,160
		<b>P 208,413,949</b>	<b>P 100,382,919</b>	<b>P 261,056,773</b>	<b>P 743,670,488</b>	<b>P 136,377,746</b>	<b>P 1,449,901,875</b>
<b>NAV</b>		<b>1.2701</b>	<b>1.5582</b>	<b>1.8278</b>	<b>1.7662</b>	<b>1.1441</b>	<b>-</b>
<b>2018</b>							
<b>Assets</b>							
Cash and cash equivalents	P	67,879,202	P 17,468,710	P 56,453,395	P 488,482,008	P 101,452,725	P 731,736,040
Financial assets at FVPL		86,050,348	49,333,185	160,084,848	199,044,246	21,910,641	516,423,268
Loans and other receivables		39,783,876	788,516	1,935,137	14,183,416	31,330	56,722,275
Accrued income		926,896	719,257	269,386	2,344,791	407,829	4,668,159
		<b>P 194,640,322</b>	<b>P 68,309,668</b>	<b>P 218,742,766</b>	<b>P 704,054,461</b>	<b>P 123,802,525</b>	<b>P 1,309,549,742</b>
<b>Liabilities</b>							
Insurance contract liabilities	P	193,068,356	P 60,096,336	P 206,457,097	P 695,158,557	P 118,670,377	P 1,273,450,723
Accounts payable and accrued expenses		326,858	463,192	3,515,531	2,128,815	45,491	6,479,894
		<b>P 193,395,214</b>	<b>P 60,559,535</b>	<b>P 209,972,628</b>	<b>P 697,287,372</b>	<b>P 118,715,868</b>	<b>P 1,279,930,617</b>
<b>NAV</b>		<b>1.2406</b>	<b>1.4706</b>	<b>1.7630</b>	<b>1.7110</b>	<b>1.0087</b>	<b>-</b>

### 38. LIFE INSURANCE COVERAGE OF COCONUT FARMERS

Under the amended group master policy contract dated March 27, 1978, the Company agreed to provide group whole-life insurance coverage to certain coconut farmer members of the Philippine Coconut Producers Federation (Program I). This Group insurance plan shares in the Group's savings in mortality expenses and extra earnings in investments through policyholders' dividends and policy benefits.

This Group insurance plan shares in the Group's savings in mortality expenses and extra earnings in investments through policyholders' dividends and policy benefits.

Effective April 1, 1985, the insurance coverage of the coconut farmers was converted from a whole-life insurance plan to a modified extended term insurance. The amount of insurance and other benefits remained substantially the same, except for cash surrender and policy loan privileges. Policyholders' dividends, policy benefits and the legal policy reserves maintained under the farmers' insurance program are used to sustain, until these can, the modified extended term insurance coverage of the insured coconut farmers.

On November 5, 1996, the Philippine Coconut Authority (PCA) and the CIIF-OMG signed a MOA which will expand the number of farmers covered under the Insurance Program from existing 0.60 million to 1.50 million farmers (Program II). The premium payments for the additional farmers will be taken from an insurance fund to be set up by the CIIF-OMG in keeping with their social responsibility to the coconut industry.

On August 28, 2002, the PCA and CIIF-OMG signed a MOA which proposed a further expansion of the insurance program in order to restore the insurance benefit of the remaining insured coconut farmers under Program I and II from P5,000 to P10,000 (Program III). Further, under the same program, the PCA also proposed to extend the same benefit to an additional 2.48 million coconut farmers and coconut farm workers that were not included under Programs I and II. Accordingly, the PCA and CIIF-OMG have agreed in principle to implement Program III as follows:

*Phase I*

Upgrade the insurance coverage of the existing 1.02 million insured farmers from P5,000 to P10,000 per farmer effective June 12, 2002.

*Phase II*

Provide an additional 0.85 million coconut farmers and workers with a P10,000 Group Yearly Renewable Term Coverage.

*Phase III*

Provide an additional 0.90 million coconut farmers and workers with a P10,000 Group Yearly Renewable Term Coverage.

*Phase IV*

Provide an additional 0.78 million coconut farmers and workers with a P10,000 Group Yearly Renewable Term Coverage.

**39. OTHER INFORMATION REQUIRED BY THE SECURITIES AND EXCHANGE COMMISSION**

RA No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code) took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no significant impact to the Company's financial statements.

**40. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS NO. 15-2010 OF BUREAU OF INTERNAL REVENUE**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The tax information/disclosures required for the taxable year ended December 31, 2019 is presented below and in the succeeding page.

**A. VAT**

*Output VAT*

In 2019, the Company declared output VAT amounting to P48,722,437 which relates to its taxable sales amounting to P406,020,309. The Company has no exempt or zero-rated sales during the year.

*Input VAT*

The Company's input VAT during the year amounting to P391,900 solely relates to services lodged to other accounts. The total input VAT was applied against the output VAT declared during the year.

**B. Documentary Stamp Tax**

Documentary stamp taxes (DST) paid and accrued in 2019 are presented below.

On loan instruments	P 2,626,960
On policies issued	623,870
On others	<u>2,308,320</u>
	<b><u>P 5,559,150</u></b>

DST on loan instruments and on shares of stock in 2019 were recorded as part of Others under Investment Expenses account in the 2019 statement of comprehensive income (see Note 28).

### C. Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2019 are shown below.

Expanded	P 382,348,734
Compensation and benefits	<u>30,216,390</u>
	<b><u>P 412,565,124</u></b>

The Company has no income payments subject to final withholding tax.

### D. All Other Taxes (Local and National)

Other taxes paid during the year recognized under Taxes and licenses account under General and Administrative Expenses are as follows (see Note 31):

License and permit fees	P 13,541,451
Real estate taxes	4,687,196
DST	98,265
Others	<u>4,063,527</u>
	<b><u>P 22,390,439</u></b>

### E. Tax Contingencies

As of December 31, 2019, the Company does not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.