COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A 1 9 9 6 0 4 8 0 1

COMPANY NAME

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of
Petron Corporation)

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

SMC Head Office Complex
40 San Miguel Avenue
Mandaluyong City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
NA	8886-3888	NA

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
6	2nd Tuesday of March	December 31

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Iluminada C. De Chavez	icdechavez@petron.com	8886 - 3888	NA

CONTACT PERSON's ADDRESS

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
RECEIVED
SCES
ADRIAN A. ALTAMIRA

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

PETROGEN INSURANCE CORPORATION

(A Wholly-owned Subsidiary of Petron Corporation)

FINANCIAL STATEMENTS
December 31, 2019 and 2018

With Independent Auditors' Report

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Petrogen Insurance Corporation
SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Petrogen Insurance Corporation (the Company), a wholly-owned subsidiary of Petron Corporation, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (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 audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

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 audits.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

The supplementary information required for purposes of filing with the Bureau of Internal Revenue is presented by the management of the Company in a separate schedule. Such supplementary information is not a required part of the basic financial statements. Our opinion on the basic financial statements is not affected by the presentation of the supplementary information on a separate schedule.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
IC Accreditation No. 102309-IC, Group A, valid for 5-year audit
 period (2019 to 2023)
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2019
 Issued September 25, 2019; valid until September 24, 2022
PTR No. MKT 8116770
 Issued January 2, 2020 at Makati City

March 9, 2020
Makati City, Metro Manila

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION

The Board of Directors and Stockholders
Petrogen Insurance Corporation
SMC Head Office Complex
40 San Miguel Avenue, Mandaluyong City

We have audited the accompanying financial statements of Petrogen Insurance Corporation (the Company), a wholly-owned subsidiary of Petron Corporation, as at and for the year ended December 31, 2019, on which we have rendered our report dated March 9, 2020.

In compliance with Revised Securities Regulation Code (SRC) Rule 68, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
IC Accreditation No. 102309-IC, Group A, valid for 5-year audit
period (2019 to 2023)
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2019
Issued September 25, 2019; valid until September 24, 2022
PTR No. MKT 8116770
Issued January 2, 2020 at Makati City

March 9, 2020
Makati City, Metro Manila

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2019	2018
ASSETS			
Cash and cash equivalents	*5, 6, 25*	**P595,050,133**	P357,611,605
Insurance receivables - net	*7, 25*	**1,764,095,621**	122,579,176
Investments in debt securities	*5, 8, 25*	**419,542,505**	378,476,126
Deferred reinsurance premiums	*9, 25*	**41,139,133**	37,550,402
Property and equipment - net	*10, 25*	**20,170**	44,374
Deferred tax assets	*21, 25*	**4,180,115**	3,092,787
Other assets	*11, 25*	**12,265,893**	13,483,986
		P2,836,293,570	P912,838,456
LIABILITIES AND EQUITY			
Liabilities			
Insurance liabilities	*12, 25*	**P1,761,740,107**	P109,889,562
Due to reinsurers - net	*13, 25*	**93,697,641**	46,719,745
Accrued expenses and other liabilities	*14, 25*	**28,988,365**	17,532,082
Deferred reinsurance commission	*15, 25*	**1,143,892**	1,366,157
		1,885,570,005	175,507,546
Equity			
Capital stock	*16*	**475,001,000**	350,000,000
Contributed surplus		**25,000,000**	25,000,000
Remeasurement of investments in debt securities - net of deferred tax	*8*	**2,101,394**	(8,471,146)
Retained earnings	*16*	**448,621,171**	370,802,056
		950,723,565	737,330,910
		P2,836,293,570	P912,838,456

See Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date JUN 30 2020
RECEIVED
ADRIAN A. ALTAMIRA
SCES

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF INCOME

	Note	Years Ended December 31 2019	2018
UNDERWRITING INCOME			
Gross premiums written	12, 17	**P724,872,971**	P600,820,356
Premiums ceded	9, 17	**(626,403,991)**	(562,773,419)
Net premiums retained		**98,468,980**	38,046,937
Decrease (increase) in reserve for unearned premiums - net of change in deferred reinsurance premiums	17	**(30,350,325)**	1,028,130
Net premiums earned	17	**68,118,655**	39,075,067
Reinsurance commission	15	**13,636,796**	14,007,494
GROSS UNDERWRITING INCOME		**81,755,451**	53,082,561
UNDERWRITING EXPENSES - Net	12	**(22,165,983)**	(8,911,200)
NET UNDERWRITING INCOME		**59,589,468**	44,171,361
INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD	18	**33,216,194**	24,261,306
OTHER INCOME - Net	19	**27,751,623**	51,921,575
INCOME AFTER INTEREST AND OTHER INCOME		**120,557,285**	120,354,242
GENERAL AND ADMINISTRATIVE EXPENSES	20	**(15,357,290)**	(17,496,896)
INCOME BEFORE INCOME TAX		**105,199,995**	102,857,346
Current income tax		**21,129,257**	18,012,969
Final tax		**6,653,581**	4,880,749
Deferred income tax		**(1,651,958)**	(619,492)
INCOME TAX EXPENSE	21	**(26,130,880)**	(22,274,226)
NET INCOME		**P79,069,115**	P80,583,120

See Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date JUN 30 2020
RECEIVED
ADRIANA A. ALTAMIRA
SCES

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	**2019**	2018
NET INCOME		**P79,069,115**	P80,583,120
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of investments in debt securities - net of deferred tax	*8*	**10,128,384**	(8,618,851)
Net change in fair value of investments in debt securities reclassified to profit or loss - net of deferred tax	*8*	**444,156**	424,255
		10,572,540	(8,194,596)
TOTAL COMPREHENSIVE INCOME		**P89,641,655**	P72,388,524

See Notes to the Financial Statements.

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Capital Stock (Note 16)	Contributed Surplus	Remeasurement of Investments in Debt Securities - net of deferred tax (Note 8)	Retained Earnings (Note 16)	Total Equity
Balance at January 1, 2019	**P350,000,000**	**P25,000,000**	**(P8,471,146)**	**P370,802,056**	**P737,330,910**
Net income	-	-	-	**79,069,115**	**79,069,115**
Other comprehensive income	-	-	**10,572,540**	-	**10,572,540**
Total comprehensive income	-	-	**10,572,540**	**79,069,115**	**89,641,655**
Transaction with owner of the Company					
Issuance of capital stock	**125,001,000**	-	-	-	**125,001,000**
Documentary stamp tax (DST) on issuance of capital stock	-	-	-	**(1,250,000)**	**(1,250,000)**
	125,001,000	-	-	**(1,250,000)**	**123,751,000**
Balance at December 31, 2019	**P475,001,000**	**P25,000,000**	**P2,101,394**	**P448,621,171**	**P950,723,565**
Balance at January 1, 2018	P335,000,000	P25,000,000	(P276,550)	P305,368,936	P665,092,386
Net income	-	-	-	80,583,120	80,583,120
Other comprehensive loss		-	(8,194,596)	-	(8,194,596)
Total comprehensive income (loss)	-	-	(8,194,596)	80,583,120	72,388,524
Transaction with owner of the Company					
Stock dividend	15,000,000	-	-	(15,000,000)	-
Documentary stamp tax (DST) on issuance of capital stock	-	-	-	(150,000)	(150,000)
	15,000,000	-	-	(15,150,000)	(150,000)
Balance at December 31, 2018	P350,000,000	P25,000,000	(P8,471,146)	P370,802,056	P737,330,910

See Notes to the Financial Statements.

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)
STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	**2019**	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P105,199,995**	P102,857,346
Adjustments for:			
Interest income	*18*	**(33,216,194)**	(24,261,306)
Increase (decrease) in reserve for unearned premiums - net of change in deferred reinsurance premiums	*17*	**30,350,325**	(1,028,130)
Unrealized foreign exchange (gain) loss - net	*19*	**(2,257,960)**	1,368,938
Decrease in deferred reinsurance commission	*15*	**(222,265)**	(735,495)
Depreciation	*10, 20*	**24,204**	32,554
Operating income before working capital changes		**99,878,105**	78,233,907
Changes in operating assets and liabilities			
Decrease (increase) in:			
Insurance receivables - net		**(1,674,581,571)**	55,509,673
Other assets		**2,302,355**	4,737,186
Increase (decrease) in:			
Claims and losses payable		**1,651,119,596**	(60,974,636)
Due to reinsurers - net		**47,315,913**	16,725,599
Accrued expenses and other liabilities		**11,456,283**	210,957
Cash generated from operations		**137,490,681**	94,442,686
Income taxes paid		**(27,782,838)**	(22,893,718)
Net cash provided by operating activities		**109,707,843**	71,548,968
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investments in debt securities at amortized cost	*8*	**(70,000,000)**	(55,000,000)
Proceeds from maturity of investments in debt securities at amortized cost	*8*	**40,000,000**	30,000,000
Interest received		**32,202,725**	24,325,117
Net cash provided by (used in) investing activities		**2,202,725**	(674,883)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of capital stock	*16*	**125,001,000**	-
Payment of documentary stamp tax (DST) on issuance of capital stock		**(1,250,000)**	(150,000)
Net cash provided by (used in) financing activities		**123,751,000**	(150,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**235,661,568**	70,724,085
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**1,776,960**	(1,473,959)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**357,611,605**	288,361,479
CASH AND CASH EQUIVALENTS AT END OF YEAR	*6*	**P595,050,133**	P357,611,605

See Notes to the Financial Statements.

PETROGEN INSURANCE CORPORATION
(A Wholly-owned Subsidiary of Petron Corporation)

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Petrogen Insurance Corporation (the Company) was incorporated in the Philippines on August 23, 1996. The Company is presently engaged in the business and operation of all kinds of insurance and reinsurance, on sea as well as on land, of properties, goods and merchandise, of transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company is a wholly-owned subsidiary of Petron Corporation (Petron), a company incorporated and domiciled in the Philippines and whose shares are listed in the Philippine Stock Exchange.

The Company's ultimate parent is Top Frontier Investments Holdings, Inc.

The Company has Certificate of Authority No. 2019/84-R issued by the Insurance Commission (IC) to transact in a non-life insurance business until December 31, 2021.

The Company's principal and registered office address is at SMC Head Office Complex, 40 San Miguel Avenue, Mandaluyong City.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consists of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The accompanying financial statements of the Company as at and for the year ended December 31, 2019 were authorized for issue by the Board of Directors (BOD) on March 9, 2020.

This is the first set of the Company's annual financial statements in which PFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 3.

Basis of Measurement
The financial statements of the Company have been prepared on a historical cost basis, except for financial assets classified as investments in debt securities at fair value through other comprehensive income (FVOCI), which is stated at fair value.

Functional and Presentation Currency
The financial statements are presented in Philippine peso, which is the Company's functional currency. All financial information is rounded off to the nearest peso, except when otherwise indicated.

Presentation of Financial Statements
The Company presents its statements of financial position in a manner that the presentation provides information that is reliable and relevant. An analysis regarding recovery or settlement within 12 months after reporting date (current) and more than 12 months after reporting date (non-current) is presented in Note 25.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in the financial statements, except for the changes in accounting policies as explained below.

Adoption of New Standards and Interpretation
The Company has adopted the following new standard and interpretation starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new standards and interpretation did not have any significant impact on the Company's financial statements.

- *PFRS 16, Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

  Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

  The Company has adopted PFRS 16 using the modified retrospective approach under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2019. Accordingly, the comparative information has not been restated.

  The adoption of PFRS 16 has no significant effect on the financial statements of the Company as a lessee.

- *Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) - 23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in *PAS, 12 Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

This interpretation to IFRIC-23 has no impact to the Company's financial statements as there were no identified uncertainty over income tax treatments.

New and Amended Standards Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2019 and have not been applied in preparing these financial statements. Unless otherwise indicated, none of these are expected to have a significant effect on the Company's financial statements.

The Company will adopt the following new and amended standards on the respective effective dates:

Effective January 1, 2020

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;

  - guidance on reporting financial performance;

  - improved definitions of an asset and a liability, and guidance supporting these definitions; and

  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

  These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify the definition of material and its application by:

(a) raising the threshold at which information becomes material by replacing the term ‘could influence’ with ‘could reasonably be expected to influence’;

(b) including the concept of ‘obscuring information’ alongside the concept of ‘omitting’ and ‘misstating’ information in the definition;

(c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;

(d) clarifying the explanatory paragraphs accompanying the definition; and

(e) aligning the wording of the definition of material across PFRS and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

Effective January 1, 2023

- PFRS 17, *Insurance Contracts*. This replaces the interim standard, PFRS 4 *Insurance Contracts*. Reflecting the view that an insurance contract combines features of both a financial instrument and a service contract, and considering the fact that many insurance contracts generate cash flows with substantial variability over a long period, PFRS 17 introduces a new approach that:

  (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract;

  (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and

  (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

  Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity’s rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

  Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the ‘premium allocation approach’, investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2023. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9, *Financial Instruments* and PFRS 15, *Revenue from Contracts with Customers* on or before the date of initial application of PFRS 17.

Given the short tail nature of most of the insurance contracts issued, the Company is assessing if the simplified approach is applicable. The Company is currently performing detailed assessment on the impact of the adoption of the new standard in its financial statements.

Financial Assets and Financial Liabilities

Date of Recognition

Financial instruments are recognized in the statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction costs.

C*lassification and Subsequent Measurement*

Financial Assets

The Company classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at FVOCI and financial assets at FVPL. The classification depends on the business model of the Company for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to initial recognition, unless the Company changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI with or without recycling of cumulative gains and losses and financial assets at FVPL.

As at December 31, 2019 and 2018, the Company has financial assets classified at amortized cost and FVOCI.

Financial Assets at Amortized Cost. The Company measures financial assets at amortized cost if both of the following conditions are met:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate (EIR). Gains and losses are recognized in profit or loss when the financial asset is derecognized, modified or impaired.

Included in this category are: (a) cash in banks and cash equivalents; (b) insurance receivables - net, which arise primarily from premiums receivable and reinsurance recoverable on paid losses; (c) investments in debt securities at amortized cost; (d) interest receivables and security deposit under "Other assets" account; and (e) due from reinsurers, net of allowance for impairment losses, under "Due to reinsurers - net" account (Notes 6, 7, 8, 11 and 13).

Financial Assets at FVOCI. Investment in debt securities is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the fair value in OCI. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are reported as remeasurement of investment in debt securities as part of OCI. Cumulative net change in the fair value of debt securities measured at FVOCI is presented as "Remeasurement of investments in debt securities - net of deferred tax" under equity section of the statements of financial position. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt securities are recognized in profit or loss. When investment in debt securities at FVOCI is derecognized the related accumulated gains or losses previously reported in the statements of changes in equity are transferred to and recognized in profit or loss.

The Company's investments in debt securities at FVOCI are classified under this category (Note 8).

Equity instruments that are irrevocably designated at FVOCI are initially measured at fair value. Changes in the fair value of such equity instruments are recognized in equity section of the statements of financial position. Gains and losses are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends earned on holding an investment in equity instrument are recognized as dividend income when the right to receive the payment has been established. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the statements of changes in equity are never reclassified to profit or loss.

As at December 31, 2019 and 2018, the Company has no equity instruments at FVOCI.

Impairment of Financial Assets
The Company recognizes allowance for impairment losses on its financial assets at amortized cost and investments in debt securities at FVOCI.

Expected credit losses (ECLs) are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive), discounted at the EIR of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Company recognizes an allowance for impairment based on either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company recognizes lifetime ECL for receivables that do not contain significant financing component. The Company uses provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

The Company considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the restructuring of a financial asset by the Company on terms that the Company would not consider otherwise;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

Financial assets are written off when identified to be worthless after exhausting all collection efforts.

Financial Liabilities
The Company classifies its financial liabilities at initial recognition into the following categories: financial liabilities at FVPL and other liabilities. The Company determines the classification of its financial liabilities at initial recognition, and were allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

As at December 31, 2019 and 2018, the Company has no financial liabilities at FVPL.

Other Financial Liabilities
This category pertains to financial liabilities that are not designated or classified at FVPL.

Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered integral part of the EIR of the liability.

Included in this category are: (1) claims and losses payable presented as part of "Insurance liabilities" account; (2) due to reinsurers (gross of due from reinsurers); and (3) accrued expenses and other liabilities (excluding payable to regulatory agencies and deferred credits) (Notes 12, 13 and 14).

Derecognition of Financial Assets and Financial Liabilities
Financial Assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the contractual rights to receive cash flows from the asset have expired;

- the Company retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Company has transferred its right to receive cash flows from the asset and either has:

  (a) transferred substantially all the risks and rewards of the asset; or

  (b) neither transferred nor retained substantially the risks and rewards of the financial asset but has transferred the control of the financial asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset but transferred control of the asset, the Company continues to recognize the asset to the extent of the Company's continuing involvement. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

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

<u>Classification of Financial Instruments between Debt and Equity</u>
Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are changed directly to equity, net of any related income tax benefits.

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;

- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or

- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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

<u>Fair Value Measurement</u>
Determination of Fair Values
The fair values of financial instruments traded in active markets at reporting date are based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair values are determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flows method, price comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

‘Day 1’ Profit

Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a ‘Day 1’ profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the ‘Day 1’ profit.

Fair Value Hierarchy

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

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

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., 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).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the financial liability simultaneously. This is not generally the case with master netting agreements, and the related financial assets and financial liabilities are presented gross in the statements of financial position.

Property and Equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the cost of day-to-day servicing.

The initial cost of property and equipment comprises of its construction cost or purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period these costs are incurred. Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the items can be measured reliably.

Depreciation, which commences when the assets are available for their intended use, is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Office equipment	10
Electronic data processing (EDP) equipment	3

The remaining useful lives, residual values and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

The carrying amounts of the property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Impairment of Non-financial Assets

The carrying amounts of non-financial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs to sell. Value in use is the present value of future cash flows expected to be derived from an asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment loss is recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment loss 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

As at December 31, 2019 and 2018, no impairment loss has been recognized on the Company's property and equipment (Note 10).

<u>Insurance Contracts</u>
Insurance contract is an agreement whereby one party called the insurer undertakes, for a consideration paid by the other party called the insured, promises to pay money, or its equivalent or to do some act valuable to the latter, upon happening of a loss, liability or disability arising from an unknown or contingent event.

Classification of Insurance and Investment Contracts
The Company issues contracts that transfer insurance or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risk includes the possibility of having to pay benefits on the occurrence of an insured event. The Company may also transfer insurance risk in insurance contracts through its reinsurance arrangements to hedge a greater possibility of claims occurring than expected. 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 are at least 10.00% more than the benefits payable if the insured event did not occur. Insurance contracts can also expose the insurer to financial risks. 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, a credit rating or credit index or other variable. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly 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.

In 2019 and 2018, the Company did not issue any investment contracts.

Insurance Contract Receivables and Payables
Insurance contract receivables and payables are recognized when contracts are entered into and premiums are charged. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes that impairment loss in profit or loss.

Claims and Losses Payable
Liabilities for unpaid claims and losses and claim adjustment expenses relating to insurance contracts are accrued when insured events occur. The liability is derecognized when the contract is discharged or cancelled.

The liabilities for claims are based on the estimated ultimate cost of settling the claims. The method of determining the expected ultimate cost of claims reported at reporting date are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and difference between estimates and payments for claims are recognized as income or expense in the period in which the estimates are changed or payments are made.

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in profit or loss in the period the recoveries are determined. Recoverable amounts from reinsurers are presented as part of “Insurance receivables - net” account in the statements of financial position.

Incurred but Not Yet Reported (IBNR) Claims
IBNR is based on the estimated ultimate cost of all claims incurred but not reported at the end of the reporting period. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. This liability is discounted for the time value of money. The liability is derecognized when the contract is discharged, cancelled or has expired.

Liability Adequacy Test
At each reporting date, liability adequacy test (LAT) is performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of future cash flows, claims handling cost and policy administrative expenses. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy arising from the test is immediately charged to profit or loss by establishing an unexpired risk provision for losses.

The Company’s insurance contract liabilities are composed of premium liabilities and claims liabilities. Premium liabilities are calculated as the higher of reserve for unearned premiums and the unexpired risk reserve for each line of business. Unexpired risk reserve is an estimate of total liability including expenses, at a designated level of confidence, in respect of the risk after the valuation date of the policies written prior to that date including expenses for policy management and claims settlement costs. If the unexpired risk reserve is higher than the reserve for unearned premiums, the excess is set up as an additional insurance reserves on top of reserve for unearned premiums.

While claims liabilities are composed of claims and losses payable and IBNR, significant accounting policies are disclosed in the preceding section of the notes to the financial statements.

Reinsurance
The Company cedes insurance risk in the normal course of business. Reinsurance assets primarily include balances due from reinsurance companies. Amounts due from reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts.

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

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

Reinsurance assets and liabilities are derecognized when the contractual right is extinguished or expired or when the contract is transferred to another part.

Equity

Capital Stock

Capital stock is composed of common shares, determined using the nominal value of shares that have been issued.

Contributed Surplus

Contributed surplus represents contributions of the stockholders to the Company in compliance with the requirements of the Insurance Code.

Retained Earnings

Retained earnings include all current and prior period results. Retained earnings may also include effect of changes in accounting policy as may be required by the transitional provision of the standards. Any transaction costs associated with the issuance of shares are deducted from retained earnings.

Dividend distribution to the Company's shareholders is recognized in the year in which the dividends are approved by the BOD. The Company intends to declare dividends subject to availability of retained earnings and operational and regulatory requirements.

Revenue Recognition

The Company recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The Company's revenue streams arising from insurance contracts falls under PFRS 4 while interest income falls under PFRS 9 and other income under PFRS 15. The following specific criteria must also be met before revenue is recognized:

Premium Income

Gross premiums written comprise the total premiums for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums payable for reinsurance contracts are recognized as a contra-income account upon recognition of related premiums and presented as "Premiums ceded" in profit or loss.

Premiums from insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired periods of the policies at the reporting date is accounted for as "Reserve for unearned premiums" account and presented under "Insurance liabilities" in the statements of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at each reporting date is accounted for as "Deferred reinsurance premiums" and shown in the assets section of the statements of financial position. The net changes in these accounts between reporting dates are credited to or charged against income as "Increase or decrease in reserve for unearned premium - net of change in deferred reinsurance premiums" account in the profit or loss.

Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

Reinsurance Commissions
Reinsurance commissions earned from reinsurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as "Deferred reinsurance commission" and presented in the liabilities section of the statements of financial position.

Interest Income Calculated Using the Effective Interest Method
Interest income for all interest-bearing financial instruments is recognized in profit or loss using the effective interest method. Interest income is recognized at gross amount of the tax withheld.

Other Underwriting Income
Other underwriting income is recognized in the period when benefits are earned.

Service Fees
Service fees pertain to services provided by the Company other than underwriting services. Service fees are recognized over a period of time as the Company delivers services to the customer(s).

No Claim Bonus and Profit Commission
No claim bonus and profit commission are the amounts received from reinsurers in the event of no claims made throughout the coverage period. No claim bonus and profit commission is recognized at a point in time when there is a reasonable degree of certainty that the incidental economic benefit will flow to the Company that can be measured reliably.

<u>Cost and Expense Recognition</u>
Cost and 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. Costs and expenses are recognized when incurred.

Underwriting Expenses
Underwriting expenses consist of benefits and claims incurred during the year and loss adjustments. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

<u>Leases</u>
Policy Applicable from January 1, 2019
At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether throughout the period of use:

- the Company has the right to obtain substantially all the economic benefits from use of the identified asset; and

- the Company has the right to direct the use of the identified asset.

As a Lessee
The Company recognizes a right-of-use asset and a lease liability at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the 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 estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company's lease agreement did not contain a specified asset thus, not considered as a lease contract under the provisions of PFRS 16. The Company did not recognize right-of-use assets and lease liabilities. The Company recognizes lease payments as expense on a straight-line basis over the lease term.

Policy Applicable before January 1, 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

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

(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

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

<u>*Operating Lease*</u>
Company as Lessee
Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over lease term.

<u>Foreign Currency Transactions and Translation</u>
Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates at reporting date; income and expenses are translated using the average rate for the year. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the translation of financial assets at FVOCI, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in OCI.

Taxes

Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - excess of Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of excess of MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The measurement of deferred tax reflects the tax consequences that would follow 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year 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 reporting date, and reflects uncertainty related to income taxes, if there is any.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

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

Final Tax
Interest income from cash on hand and in banks and financial assets, which is subject to final withholding tax, is presented at gross amounts while taxes paid or withheld are included in 'Income tax expense" account in the profit or loss.

Value-added Tax (VAT)
Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

<u>Related Parties</u>
Related party relationships exist when one party has the ability to control or influence the other party, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

<u>Provisions</u>
Provisions are recognized when: a) the Company has a present obligation (legal or constructive) as a result of past event; b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Events After the Reporting Date
Post year-end events that provide additional information about the Company's financial position at reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements at the reporting date. However, actual results may differ from such judgments and estimates.

Judgments, estimates and assumptions 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. Revisions are recognized in the period in which the judgments, estimates and assumptions are revised and in any future period affected.

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

Operating Lease Commitments - Company as Lessee. The Company had determined that all the significant risks and rewards for property leased are retained by the lessor.

Rent expense recognized in the statement of comprehensive income amounted to P454,214 and P440,985 in 2019 and 2018, respectively (Note 20, 22 and 24).

Determining whether an Arrangement Contains a Lease (Prior to the Adoption of PFRS 16). The Company uses its judgement in determining whether an arrangement contains a lease, based on the substance of the arrangement at inception date and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the customers.

Classification of Financial Instruments
The Company exercises judgment in classifying financial instruments in accordance with PFRS 9. The Company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

The classification and fair values of financial assets and financial liabilities are presented in Note 5.

The Company uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics.

Business Model Assessment
The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future salary activity.

Cash Flow Characteristics - Payments of Principal and Interest
For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basis lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet these conditions. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;

- terms that may adjust the contractual coupon rate, including variable rate features;

- prepayment and extension features; and

- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

The Company determines that the business model for financial assets at amortized cost is held to collect contractual cash flows and meets the solely principal and interest criterion as of December 31, 2019. Other financial assets are classified as financial assets at FVOCI based on the characteristics of the contractual cash flows of the instruments.

Determination of Fair Values of Financial Instruments
Where the fair values of financial assets and liabilities recorded in the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

The Company uses judgment to select from a variety of valuation models and makes assumptions regarding considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair value.

Determining whether the Company is Acting as Principal or an Agent
The Company assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

(a) the Company have the primary responsibility to provide specified goods to the end consumers; and

(b) the Company have discretion to establish prices for specified goods.

If the Company has determined it is acting as a principal, it recognizes revenue on a gross basis with the amount remitted to the other party being accounted as part of general and administrative expenses. If the Company has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Company assessed its revenue arrangements and concluded that it is acting as principal in all arrangements.

Estimates and Assumptions
Estimation of Allowance for Impairment of Financial Assets
The Company measures allowance for impairment losses on financial assets at FVOCI and at amortized cost based on the assumptions about risk of default and expected credit loss rates. When estimating the expected credit loss, the Company uses judgments in making these assumptions based on the Company's past experience and historical data, existing market conditions as well as forward looking estimates. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease assets.

As at December 31, 2019 and 2018, the Company assessed that there are no impairment indicators for its financial assets at FVOCI. For the financial assets at amortized cost, the Company recognized impairment loss of P0.97 million in 2018 on its insurance receivable (Note 7). No provision was recognized for the remaining financial assets at amortized cost.

Valuation of Claims and Losses Payable and IBNR
The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimation of the ultimate cost of claims is a complex process and can be evaluated with the aid of the adjuster's estimates.

The Company considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the ultimate liability arising from claims made under insurance contracts as the major uncertainties may differ significantly. With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected including reserve for outstanding losses and related insurance balances.

In estimating the ultimate cost of IBNR, the Company adopted the Incurred Chain Ladder Method, the Paid Chain Ladder Method, the Bornhuetter-Ferguson Incurred Approach and the Bornhuetter-Ferguson Paid Approach, in weighted averages, to predict the future claims settlement.

At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to claims and losses payable and IBNR claims.

As at December 31, 2019 and 2018, claims and losses payable and IBNR claims amounted to P1,686.63 million and P68.72 million, respectively (Note 12).

Reasonableness of Insurance Policy Reserves
The LATs are performed to ensure the adequacy of the insurance contract liabilities using the current best estimates of the future contractual cash flows and claims handling and administration expenses.

As at December 31, 2019 and 2018, the Company's reserve for unearned premiums amounting to P75.11 million and P41.17 million, respectively, and IBNR of P8.15 million in 2019 and P15.34 million in 2018 are adequate in using the best estimates assumptions (Note 12).

Realizability of Deferred Tax Assets
The Company reviews its deferred tax assets at each reporting date 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 assets to be utilized. The Company's assessment on the recognition of deferred tax assets is based on the projected taxable income in the following periods.

As at December 31, 2019 and 2018, deferred tax assets amounted to P4.18 million and P3.09 million, respectively (Note 21).

5. Insurance and Financial Risks Management Objectives and Policies

Objectives and Policies
The primary objective of the Company's insurance and financial risk management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of the financial performance objectives, including failing to exploit opportunities.

Governance
Key management recognizes the critical importance of having efficient and effective risk management system.

The Company's risk management involves the close cooperation of the Company's BOD in developing objectives, policies and processes on insurance, liquidity, credit and market risks and the Company's management of capital.

Regulatory Framework

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

The risks and the way the Company manages insurance and financial risks are set out below:

Insurance Risk

The major classes of general insurance written by the Company include fire, marine, casualty and motor. Risks under these policies usually cover a twelve-month duration.

The risk under insurance contracts is the possibility of occurrence of an insured event and uncertainty of the amount and timing of resulting claims. The principal risk the Company faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

- *Occurrence Risk* - the possibility that the number of insured events reported in a particular period will differ from those expected.

- *Severity Risk* - the possibility that the cost of the events will differ from those expected.

- *Development Risk* - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risk is also improved by careful selection and implementation of underwriting strategy and guidelines.

The business of the Company comprises short-term nonlife insurance contracts. For general insurance contracts, claims are often affected by natural disasters, calamities, etc. These risks currently do not vary significantly in relation to the location of the risk insured by the Company while undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company has an objective to control and minimize insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security; and

- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented as part of “Insurance receivables - net” in the statements of financial position.

The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. Amounts of estimates at the accident year are based from adjusters’ report. Other estimates are based on reasonable approximation after an evaluation of reported claims. Adjustment to the loss reserves is made on the year the ultimate cost of claim becomes more certain. Reserves are either decreased or increased depending on the estimates.

The Company’s exposure to insurance risk as at December 31, 2019 and 2018 is as follows:

	Note	**2019**	2018
Claims and losses payable and IBNR	*12*	**P1,686,629,274**	P68,717,785
Less reinsurance recoverable on unpaid losses and IBNR	*7, 12*	**1,645,025,690**	57,597,082
		P41,603,584	P11,120,703

The concentration of claims and losses by type of contract is as follows:

	2019		
	Claims and Losses Payable and IBNR (Note 12)	**Reinsurance Recoverable on Unpaid Losses and IBNR** (Notes 7,12)	**Net**
Engineering	**P1,624,440,642**	**P1,596,151,801**	**P28,288,841**
Fire	**52,133,583**	**46,743,920**	**5,389,663**
Motor	**7,489,676**	**-**	**7,489,676**
Marine	**1,664,599**	**1,368,551**	**296,048**
Accident	**476,206**	**344,851**	**131,355**
Others	**424,568**	**416,567**	**8,001**
	P1,686,629,274	**P1,645,025,690**	**P41,603,584**

	2018		
	Claims and Losses Payable and IBNR (Note 12)	Reinsurance Recoverable on Unpaid Losses and IBNR (Notes 7,12)	Net
Engineering	P9,528,676	P9,495,319	P33,357
Fire	50,779,796	45,594,360	5,185,436
Motor	5,720,690	-	5,720,690
Marine	1,774,388	1,658,052	116,336
Accident	466,407	415,694	50,713
Others	447,828	433,657	14,171
	P68,717,785	P57,597,082	P11,120,703

Key Assumptions
The principal assumptions underlying the estimates made by the Company depends on the past claims experience and industry levels. This includes assumptions in respect to average claims costs, inflation factor and handling cost. Judgment is used to assess the extent to which external factors such as judicial decision and government legislation affect the estimates.

Sensitivity Analysis
The Company's claims provision is sensitive to the previous key assumptions. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, among others is not possible to quantify.

In accordance with the claims development methodology, claims and losses over a period of time on a gross and net reinsurance basis were developed as follows:

	2019						
Accident Year	**2014 and Prior Years**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Incremental claims settlements:							
At the end of accident year	**P239,761,433**	**P9,569,787**	**P68,948,123**	**P61,536,550**	**P24,772,901**	**P2,389,278,893**	**P2,389,278,893**
One year later	**245,748,873**	**10,059,482**	**85,807,927**	**62,280,491**	**25,571,353**	**-**	**25,571,353**
Two years later	**250,250,736**	**10,079,623**	**85,807,927**	**62,297,843**	**-**	**-**	**62,297,843**
Three years later	**250,555,683**	**10,079,623**	**85,807,927**	**-**	**-**	**-**	**85,807,927**
Four years later	**252,335,852**	**10,079,623**	**-**	**-**	**-**	**-**	**10,079,623**
Five to ten years later	**252,335,852**	**-**	**-**	**-**	**-**	**-**	**252,335,852**
Cumulative claims incurred including IBNR	**252,335,852**	**10,079,623**	**85,807,927**	**62,297,843**	**25,571,353**	**2,389,278,893**	**2,825,371,491**
Cumulative claims and losses paid	**252,202,112**	**9,884,021**	**85,196,060**	**13,980,070**	**7,311,479**	**770,168,475**	**1,138,742,217**
Claims and losses payable and IBNR	**133,740**	**195,602**	**611,867**	**48,317,773**	**18,259,874**	**1,619,110,418**	**1,686,629,274**
Reinsurance recoverable on unpaid losses	**-**	**-**	**-**	**42,054,407**	**15,542,674**	**1,587,428,609**	**1,645,025,690**
Net exposure	**P133,740**	**P195,602**	**P611,867**	**P6,263,366**	**P2,717,200**	**P31,681,809**	**P41,603,584**

	2018						
Accident Year	2013 and Prior Years	2014	2015	2016	2017	2018	Total
Incremental claims settlements:							
At the end of accident year	P229,030,841	P10,730,592	P9,569,787	P68,948,123	P61,536,550	P24,772,901	P24,772,901
One year later	233,882,226	11,866,647	10,059,482	85,807,927	62,280,491	-	62,280,491
Two years later	234,385,369	15,865,367	10,079,623	85,807,927	-	-	85,807,927
Three years later	234,690,316	15,865,367	10,079,623	-	-	-	10,079,623
Four years later	236,470,485	15,865,367	-	-	-	-	15,865,367
Five to ten years later	236,470,485	-	-	-	-	-	236,470,485
Cumulative claims incurred including IBNR	236,470,485	15,865,367	10,079,623	85,807,927	62,280,491	24,772,901	435,276,794
Cumulative claims and losses paid	236,402,350	15,799,762	9,884,021	85,196,060	13,806,482	5,470,334	366,559,009
Claims and losses payable and IBNR	68,135	65,605	195,602	611,867	48,474,009	19,302,567	68,717,785
Reinsurance recoverable on unpaid losses	-	-	-	-	42,054,408	15,542,674	57,597,082
Net exposure	P68,135	P65,605	P195,602	P611,867	P6,419,601	P3,759,893	P11,120,703

Even though the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that any reinsurer is unable to meet its obligations under such reinsurance agreements.

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

There has been no change to the Company's exposure to financial risks or the manner in which it manages and measures the risks since the last financial year.

Credit Risk
Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. In effectively managing credit risk, the Company regulates and extends credit only to qualified and credit-worthy related entities and other counterparties, and continuously monitors defaults of its counterparties, identified either individually or by group, and incorporate this information into its credit risk controls.

As at December 31, 2019 and 2018, the Company's concentration of credit risk arises from its cash and cash equivalents and investments in debt securities amounting to P1,014.54 million and P736.04 million, respectively, which represent 87.98% in 2019 and 90.13% in 2018 of the Company's financial assets (Notes 6 and 8).

The maximum credit risk exposure of the Company's financial assets is as summarized below:

	Note	**2019**	2018
Cash and cash equivalents[1]	*6, 25*	**P595,000,133**	P357,561,605
Insurance receivables [2]	*7, 25*	**119,069,931**	65,954,087
Investments in debt securities	*8, 25*	**419,542,505**	378,476,126
Interest receivable [3]	*11*	**3,668,122**	2,583,860
Security deposit [3]	*11*	**180,733**	180,733
Due from reinsurers [4]	*13*	**15,651,238**	11,919,386
		P1,153,112,662	P816,675,797

1 Excluding cash on hand amounting to P50,000
2 Excluding reinsurance recoverable on unpaid losses, reinsurers' share on IBNR and gross of allowance for impairment loss
3 Included under "Other assets" account
4 Included under "Due to reinsurers - net" account and gross of allowance for impairment loss

The credit risk for cash and cash equivalents and investments in debt securities at FVOCI is considered negligible, since the counterparties are reputable entities with high quality external credit ratings. The credit quality of these financial assets is therefore considered as high grade. For the determination of credit risk, cash and cash equivalents do not include cash on hand amounting to P0.05 million as at December 31, 2019 and 2018.

The Company uses a credit grading system based on the borrowers and counterparties overall credit worthiness, as described below:

Investment High Grade - This pertains to accounts with a very low probability of default as demonstrated by the borrower's strong financial position and reputation. The borrower has the ability to raise substantial amounts of funds through the public markets and/or credit facilities with financial institutions. The borrower has a strong debt service record and a moderate use of leverage. Financial assets classified as investment high grade are either current or past due, and not impaired.

Non-investment Grade - Satisfactory - This pertains to current accounts with no history of default or which may have defaulted in the past, but the conditions and circumstances directly affecting the borrower's ability to pay has abated already. The borrower is expected to be able to adjust to the cyclical downturns in its operations, for individuals into business or for corporate entities. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. The use of leverage may be above industry or credit standards but remains stable.

The table below presents the Company's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	2019				
	Financial Assets at Amortized Cost				
	12-Month ECL	**Lifetime ECL not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents [1]	**P595,000,133**	**P -**	**P -**	**P -**	**P595,000,133**
Insurance receivables [2]	**119,069,931**	**-**	**-**	**-**	**119,069,931**
Investments in debt securities	**70,936,964**	**185,670,073**	**-**	**162,935,468**	**419,542,505**
Interest receivable [3]	**3,668,122**	**-**	**-**	**-**	**3,668,122**
Security deposit [3]	**-**	**180,733**	**-**	**-**	**180,733**
Due from reinsurers [4]	**15,651,238**	**-**	**-**	**-**	**15,651,238**
	P804,326,388	**P185,850,806**	**P -**	**P162,935,468**	**P1,153,112,662**

1 Excluding Cash on hand
2 Excluding reinsurance recoverable on unpaid losses and IBNR share and gross of allowance for impairment loss
3 Included under "Other assets" account
4 Included under "Due to reinsurers - net" account and gross of allowance for impairment loss

	2018				
	Financial Assets at Amortized Cost				
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired	Financial Assets at FVOCI	Total
Cash and cash equivalents [1]	P357,561,605	P -	P -	P -	P357,561,605
Insurance receivables [2]	64,982,094	-	971,993	-	65,954,087
Investments in debt securities	40,202,969	186,030,705	-	152,242,452	378,476,126
Interest receivable [3]	2,583,860	-	-	-	2,583,860
Security deposit [3]	-	180,733	-	-	180,733
Due from reinsurers [4]	11,919,386	-	-	-	11,919,386
	P477,249,914	P186,211,438	P971,993	P152,242,452	P816,675,797

1 Excluding Cash on hand
2 Excluding reinsurance recoverable on unpaid losses and IBNR share and gross of allowance for impairment loss
3 Included under "Other assets" account
4 Included under "Due to reinsurers - net" account and gross of allowance for impairment loss

The aging of insurance receivables (excluding reinsurance recoverable on unpaid losses) is as follows:

	Note	**2019**	2018
Premiums Receivables			
Current		**P116,330,510**	P21,517,612
Past due but not impaired:			
31 - 60 days		**816,622**	4,861,014
61 - 90 days		**15,766**	321,543
More than 90 days		**1,023,451**	12,874,361
	7	**118,186,349**	39,574,530
Reinsurance Recoverable on Paid Losses			
Current		**-**	810,739
Past due but not impaired:			
31 - 60 days		**-**	-
61 - 90 days		**-**	-
More than 90 days		**883,582**	24,596,825
	7	**883,582**	25,407,564
Past due and impaired	*7*	**-**	971,993
		P119,069,931	P65,954,087

The Company provides allowance for impairment based on either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. The allowance is evaluated by management on the basis of reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company has rebutted the presumption that default does not occur later than when a financial asset is 90 days past due, based on the reasonable and supportable information mentioned earlier. Therefore, financial assets aging more than 90 days are not considered impaired.

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

The Company's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The Company manages its liquidity needs by carefully monitoring scheduled debt serving payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and 1-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits or short-term marketable securities.

Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2019 and 2018, the contractual maturities of the Company are all due in one year or less.

	Note	**2019**	2018
Financial Liabilities			
Claims and losses payable	*12, 25*	**P1,678,483,024**	P53,381,601
Due to reinsurers [1]	*13, 25*	**109,348,879**	58,639,131
Accrued expenses and other liabilities [2]	*14, 25*	**2,593,927**	3,333,664
		P1,790,425,830	P115,354,396

1 Gross of due from reinsurer included under "Due to reinsurers - net" account
2 Excluding payable to regulatory agencies and deferred credits

The above contractual maturities reflect the gross cash flows, which is the same as the carrying values of the liabilities at reporting dates.

Market Risk
Market risk is the risk of change in fair value of financial instruments from fluctuation in foreign exchange rates (foreign currency risk), market interest rates (interest rate risk) and market prices (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.

Foreign Currency Risk
Most of the Company's transactions are carried out in Philippine peso, its functional currency. Exposures to currency exchange rates arise from the Company's cessions to Overseas Ventures Insurance Corporation Ltd. (OVINCOR) and collection on fire and marine insurance premiums from Petron, which are primarily denominated in US dollar.

The Company also holds US dollar-denominated cash and cash equivalents.

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency denominated financial assets and liabilities, translated into Philippine peso at the closing rate are as follows:

	2019		2018	
	US Dollar	**Peso Equivalent[1]**	US Dollar	Peso Equivalent [1]
Financial assets	**$31,891,034**	**P1,614,802,523**	$2,716,381	P142,827,349
Financial liabilities	**(30,238,534)**	**(1,531,128,193)**	(218,303)	(11,478,392)
Net exposure	**$1,652,500**	**P83,674,330**	$2,498,078	P131,348,957

1 Difference may arise due to rounding off differences

The Company reported net foreign exchange loss of P5.19 million and gain of P7.00 million in 2019 and 2018, respectively (Note 19), with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar. The Company used the Banker's Association of the Philippines' closing rates of US dollar to peso of P50.64 and P52.58 as at December 27, 2019 and December 28, 2018, respectively.

The management of foreign currency risk is also supplemented by monitoring the sensitivity of financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity through the retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, to income before tax and equity as at December 31:

	Change in US Dollar Exchange Rate	**Effect on Income before Income Tax**	**Effect on Equity**
2019	**+0.80%**	**P669,395**	**P468,576**
	-0.80%	**(669,395)**	**(468,576)**
2018	+1.25%	1,641,862	1,149,303
	-1.25%	(1,641,862)	(1,149,303)

In 2019, the peso volatility, as measured by the coefficient of variation of peso's daily closing rates, decreased to 0.80% from 1.25% in 2018. The Company determined that this will best represent the movement of foreign exchange rate until the next reporting date.

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's currency risk.

Interest Rate Risk
The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration on the maturity profile of the financial instruments.

The Company's exposure to such instruments is not significant as most of the investments have fixed interest rates and maturities.

Price Risk
Price risk is the risk that future cash flows will fluctuate because of changes in market prices of individual stocks and the changes in the level of Philippine Stock Exchange index (PSEi).

As at December 31, 2019 and 2018, the Company does not have an exposure to price risk as it does not have investments in equity securities.

<u>Fair Value of Financial Instruments</u>
The fair value of cash and cash equivalents, insurance receivables, interest receivables, investment in debt securities, security deposits, claims and losses payable, due from/to reinsurers, and accrued expenses and other liabilities (excluding amounts payable to government agencies and deferred credits), approximate their carrying amounts due to relatively short-term nature.

The fair value of investments in debt securities is presented in the fair value hierarchy.

<u>Fair Value Hierarchy</u>
Financial assets and financial liabilities measured at fair value in the statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

As at December 31, investments in debt securities is the only financial asset measured at fair value in the statements of financial position. The fair value hierarchy of the Company's investments in debt securities is as follows:

	2019				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Investments in debt securities	**P162,935,468**	**P -**	**P162,935,468**	**P -**	**P162,935,468**

	2018				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Investments in debt securities	P152,242,452	P -	P152,242,452	P -	P152,242,452

Fair value of other debt securities is estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. The market price reference in determining the market values is derived from Bloomberg Valuation in 2019 and 2018.

As at December 31, 2019 and 2018 the Company has no financial instruments valued based on Level 1 and Level 3. During the year, there were no transfers into and out of Level 1 and Level 3 fair value measurements.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2019**	2018
Cash on hand and in banks		**P59,433,275**	P26,099,261
Short-term placements		**535,616,858**	331,512,344
	5, 25	**P595,050,133**	P357,611,605

Cash in banks generally earns interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company, and earn annual interest ranging from 0.25% to 6.10% in 2019 and 1.13% to 7.00% in 2018.

Interest earned on cash in banks and short-term placements amounted to P15.14 million and P8.41 million in 2019 and 2018, respectively (Note 18). Accrued interest on cash and cash equivalents amounted to P0.61 million and P0.54 million in 2019 and 2018, respectively (Note 11).

7. Insurance Receivables

Insurance receivables consist of:

	Note	**2019**	2018
Premium receivables:			
Related party	*22*	**P117,966,359**	P39,332,596
Third parties		**219,990**	241,934
	5, 25	**118,186,349**	39,574,530
Reinsurance recoverable on paid losses:			
Third parties	*5, 25*	**883,582**	26,379,557
Reinsurance recoverable on unpaid losses:			
Related party	*22*	**6,976,543**	7,244,527
Third parties		**1,632,225,392**	37,380,552
		1,639,201,935	44,625,079
Reinsurers' share on IBNR	*12*	**5,823,755**	12,972,003
	25	**1,645,909,272**	83,976,639
Less allowance for impairment loss	*5*	**-**	(971,993)
		P1,764,095,621	P122,579,176

All of the Company's insurance receivables have been reviewed for indicators of impairment. As at December 31, 2019 and 2018, receivables amounting to nil and P0.97 million were found to be impaired.

The reconciliation of the allowance for impairment loss is as follows:

	Note	**2019**	2018
Balance at beginning of year		**P971,993**	P -
Impairment loss recognized during the year	*20*	**-**	971,993
Written-off during the year		**(971,993)**	-
Balance at end of year		**P -**	P971,993

8. Investments in Debt Securities

This account consists of:

	Note	**2019**	2018
Government securities		**P226,607,037**	P196,233,674
Other debt securities		**192,935,468**	182,242,452
	5, 25	**P419,542,505**	P378,476,126

This account is comprised of investments in government and private securities. Government securities consist of bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of Government-owned and controlled corporations, including the Banko Sentral ng Pilipinas, which are lodged with the Bureau of Treasury, in accordance with the provisions of the Insurance Code for the benefit and security of policyholders and creditors of the Company.

This account bears fixed interest rates ranging from 4.25% to 7.02% and 3.88% to 7.02% in 2019 and 2018, respectively. In 2019 and 2018, interest income on these investments amounted to P18.08 million and P15.85 million, respectively (Note 18). As at December 31, 2019 and 2018, accrued interest on these investments amounted to P3.06 million and P2.04 million, respectively (Note 11).

The maturity profile of this account is as follows:

	Note	**2019**	2018
Due in one year or less	*25*	**P108,720,806**	P40,202,969
Due after one year through five years	*25*	**310,821,699**	338,273,157
	5, 25	**P419,542,505**	P378,476,126

The breakdown of investments by classification and measurement as of December 31 follows:

	Note	**2019**	2018
Financial assets at amortized cost		**P256,607,037**	P226,233,674
Financial assets at FVOCI	*5*	**162,935,468**	152,242,452
	5, 25	**P419,542,505**	P378,476,126

The reconciliation of the carrying amount of investments in debt securities as at December 31 is as follows:

	2019	2018
Financial Assets at Amortized Cost		
Balance at beginning of year	**P226,233,674**	P201,496,282
Additions	**70,000,000**	55,000,000
Maturity	**(40,000,000)**	(30,000,000)
Amortization of discount (premium)	**373,363**	(262,608)
Balance at end of year	**P256,607,037**	P226,233,674

	Note	2019	2018
Financial Assets at FVOCI			
Balance at beginning of year		**P152,242,452**	P161,207,260
Fair value loss		**11,137,172**	(8,540,553)
Amortization of premium		**(444,156)**	(424,255)
Balance at end of year	*5*	**P162,935,468**	P152,242,452

The reconciliation of remeasurement of investments in debt securities at FVOCI is as follows:

	2019	2018
Balance at beginning of year	**(P8,471,146)**	(P276,550)
Net change in fair value of investments in debt securities	**10,128,384**	(8,618,851)
Net change in fair value of investments in debt securities transferred to profit or loss	**444,156**	424,255
Balance at end of year	**P2,101,394**	(P8,471,146)

9. Deferred Reinsurance Premiums

Deferred reinsurance premiums pertain to the portion of insurance premiums ceded out and that relates to the unexpired period of the policies at reporting dates.

The movement of this account for the years ended December 31 is as follows:

	Note	2019	2018
Balance at beginning of year		**P37,550,402**	P44,734,544
Premiums ceded		**626,403,991**	562,773,419
Premiums ceded related to expired periods		**(622,815,260)**	(569,957,561)
	17	**3,588,731**	(7,184,142)
Balance at end of year	*25*	**P41,139,133**	P37,550,402

10. Property and Equipment

The movement of this account is as follows:

		2019		
	Note	**Office Equipment**	**EDP Equipment**	**Total**
Cost				
January 1, 2019		**P3,016,326**	**P1,770,118**	**P4,786,444**
	25	**3,016,326**	**1,770,118**	**4,786,444**
Accumulated Depreciation				
January 1, 2019		**3,016,326**	**1,725,744**	**4,742,070**
Depreciation	*20*	**-**	**24,204**	**24,204**
	25	**3,016,326**	**1,749,948**	**4,766,274**
Carrying Amount December 31, 2019		**P -**	**P20,170**	**P20,170**

		2018		
	Note	Office Equipment	EDP Equipment	Total
Cost				
January 1, 2018		P3,016,326	P1,770,118	P4,786,444
	25	3,016,326	1,770,118	4,786,444
Accumulated Depreciation				
January 1, 2018		3,016,326	1,693,190	4,709,516
Depreciation	*20*	-	32,554	32,554
	25	3,016,326	1,725,744	4,742,070
Carrying Amount December 31, 2018		P -	P44,374	P44,374

11. Other Assets

Other assets consist of:

	Note	**2019**	2018
Deferred input VAT		**P4,664,797**	P684,896
Interest receivable	*5, 6, 8*	**3,668,122**	2,583,860
Creditable withholding tax (CWT)		**2,489,372**	9,852,049
Prepaid expense		**1,250,539**	174,881
Security deposit	*5*	**180,733**	180,733
Others		**12,330**	7,567
	25	**P12,265,893**	P13,483,986

CWT pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases.

Security deposit was made with the IC in compliance with Section 378 of the Amended Insurance Code (R.A. No. 10607), to be used for payment of claims against insolvent insurance companies. As at December 31, 2019 and 2018, the balance of the deposit amounting to P0.18 million represents the Company's contribution to the deposit and it earns interest at rates determined by the IC annually. No interest income was earned from security deposit for the years ended December 31, 2019 and 2018.

12. Insurance Liabilities

Insurance liabilities consist of:

	Note	**2019**	2018
Claims and losses payable:			
Related party	*22*	**P1,508,205,853**	P45,500,000
Third parties		**170,277,171**	7,881,601
	5, 25	**1,678,483,024**	53,381,601
IBNR claims		**8,146,250**	15,336,184
	5	**1,686,629,274**	68,717,785
Reserve for unearned premiums		**75,110,833**	41,171,777
		P1,761,740,107	P109,889,562

In 2018, the Company adopted certain provisions in Circular Letter (CL) No. 2018-18 *Valuation Standards for Non-life Insurance Reserves* issued by the IC specifically the recognition of margin for adverse deviation (MfAD) on its IBNR. This will bring the IBNR claims to 75% percentile level of sufficiency. The Company recognized 100% of the Company specific MfAD in 2019 and 50% in 2018, in accordance with the provision of IC CL No. 2018-19 *Amendment to Circular Letter No. 2016-69 "Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework".*

The movement in claims and losses payable and IBNR and reinsurance recoverable on unpaid losses are accounted for as follows:

	2019			2018		
	Claims and Losses Payable and IBNR	**Reinsurance Recoverable on Unpaid Losses and IBNR** (Note 7)	**Net**	Claims and Losses Payable and IBNR	Reinsurance Recoverable on Unpaid Losses and IBNR (Note 7)	Net
Balance at beginning of year	**P68,717,785**	**P57,597,082**	**P11,120,703**	P129,692,421	P118,767,781	P10,924,640
Claims and losses incurred during the year	**2,397,284,630**	**2,375,027,347**	**22,257,283**	10,204,893	2,638,906	7,565,987
Claims and losses paid - net of recoveries	**(772,183,207)**	**(780,450,491)**	**8,267,284**	(86,491,478)	(76,781,608)	(9,709,870)
Increase (decrease) in IBNR	**(7,189,934)**	**(7,148,248)**	**(41,686)**	15,311,949	12,972,003	2,339,946
Balance at end of year	**P1,686,629,274**	**P1,645,025,690**	**P41,603,584**	P68,717,785	P57,597,082	P11,120,703

A reconciliation of reserve for unearned premiums is as follows:

	Note	**2019**	2018
Balance at beginning of year		**P41,171,777**	P49,384,049
Gross premiums written		**724,872,971**	600,820,356
Gross earned premiums		**(690,933,915)**	(609,032,628)
	17	**33,939,056**	(8,212,272)
Balance at end of year		**P75,110,833**	P41,171,777

Underwriting expenses consists of:

	Note	**2019**	2018
Claims and losses incurred during the year including IBNR		**P2,390,094,697**	P25,516,842
Reinsurers' share on IBNR	*7*	**7,148,248**	(12,972,003)
Reinsurance recoverable on claims and losses during the year		**(2,375,027,347)**	(2,638,906)
Reinsurance recoverable on paid losses		**-**	(1,344,736)
Others		**(49,615)**	350,003
Underwriting expenses		**P22,165,983**	P8,911,200

The claims and losses incurred by the Company for its related parties amounted to P2.26 billion and P1.58 million in 2019 and 2018, respectively (Note 22).

13. Due to Reinsurers - net

Due to reinsurers - net consists of:

	Note	**2019**	2018
Due to reinsurers:			
Related party	*22*	**P63,863,671**	P11,478,393
Third parties		**45,485,208**	47,160,738
	5, 25	**109,348,879**	58,639,131
Due from reinsurers:			
Related party	*22*	**881,800**	957,070
Third parties		**14,769,438**	10,962,316
	5, 25	**15,651,238**	11,919,386
		P93,697,641	P46,719,745

Due to reinsurers pertain to the premiums payable to the reinsurers while due from reinsurers pertain to the Company's reinsurance commissions receivable.

All of the Company's receivables from reinsurers have been reviewed for indicators of impairment. No receivables were found to be impaired in both years.

14. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of:

	Note	**2019**	2018
Payable to regulatory agencies:			
National		**P22,013,961**	P10,562,402
Local		**4,349,391**	3,604,930
		26,363,352	14,167,332
Due to related party	*22*	**811,676**	1,301,040
Accounts payable		**702,179**	425,353
Accrued expenses		**678,624**	1,084,726
Unclaimed check		**401,448**	522,545
Deferred credits		**31,086**	31,086
	25	**P28,988,365**	P17,532,082

15. Deferred Reinsurance Commission

The reconciliation of deferred reinsurance commission is as follows:

	Note	**2019**	2018
Balance at beginning of year		**P1,366,157**	P2,101,652
Reinsurance commissions for the year		**13,414,531**	13,271,999
Reinsurance commissions earned for the year		**(13,636,796)**	(14,007,494)
		(222,265)	(735,495)
Balance at end of year	*25*	**P1,143,892**	P1,366,157

16. Equity

As at December 31, capital stock consists of:

	2019	2018
Authorized		
Par value per share	**1,000**	1,000
Number of shares	**750,000**	400,000
Issued and Outstanding		
Number of shares	**475,001**	350,000
Capital stock	**P475,001,000**	P350,000,000

On April 11, 2019, the BOD approved the increase in the Company's authorized capital stock from P400.00 million divided into 400,000 common shares to P750.00 million divided into 750,000 common shares, both at P1,000 par value. Petron subscribed to an additional 125,000 shares of the Company for P1,000 per share or a total of P125.00 million pursuant to the increase in authorized capital stock approved by the SEC on November 4, 2019.

On September 27, 2018, the BOD declared 15,000 stock dividend in favor of Petron with an aggregate value of P15.00 million from the Company's unissued authorized capital stock.

As at December 31, 2019 and 2018, the Company's unappropriated retained earnings amounted to P448.62 million and P370.80 million, respectively. The Company is required under insurance regulations to maintain prescribed amount of capital including reserves such as contributed surplus and retained earnings.

17. Net Premiums Earned

The reconciliation of movement in net premiums earned is as follows:

	Note	2019	2018
Gross Earned Premiums			
Gross premiums written		**P724,872,971**	P600,820,356
Decrease (increase) in reserve for unearned premiums		**(33,939,056)**	8,212,272
	12	**690,933,915**	609,032,628
Reinsurers' Share of Gross Earned Premiums			
Reinsurers' share of gross premiums		**626,403,991**	562,773,419
Decrease (increase) in deferred reinsurance premiums		**(3,588,731)**	7,184,142
	9	**622,815,260**	569,957,561
		P68,118,655	P39,075,067

18. Interest Income Calculated Using the Effective Interest Method

Interest income calculated using the effective interest method consists of:

	Note	2019	2018
Cash and cash equivalents	*6*	**P15,135,902**	P8,410,095
Investments in debt securities at amortized cost	*8*	**10,742,732**	8,493,750
Investments in debt securities at FVOCI	*8*	**7,337,560**	7,357,461
		P33,216,194	P24,261,306

19. Other Income - net

Other income - net consists of:

	Note	2019	2018
Service fees	*22*	**P31,051,400**	P30,815,875
Realized foreign exchange gain (loss) - net	*5*	**(7,452,022)**	8,373,894
Unrealized foreign exchange gain (loss) - net	*5*	**2,257,960**	(1,368,938)
Profit commission		**1,742,931**	2,452,861
Other income - net		**151,354**	451,477
No claim bonus		**-**	11,196,406
		P27,751,623	P51,921,575

Service fees pertain to services provided by the Company to Petron other than underwriting services which are permitted as per Company's Amended Articles of Incorporation.

In 2018, the Company recognized no claim bonus as part of “Other income” account. No claim bonus is the amount received from reinsurers in the event of no claims made throughout the coverage period. While in 2019, the Company recognized premium refund netted under “Premiums ceded” account instead of no claims bonus given the provision of the reinsurance contracts.

20. General and Administrative Expenses

General and administrative expenses consist of:

	Note	2019	2018
Outside services		**P11,895,786**	P13,307,257
Impairment losses on receivables	*7, 25*	**-**	971,993
Taxes and licenses		**1,368,081**	767,980
Professional fees		**780,740**	569,490
Association dues		**469,959**	387,770
Rent	*22.c, 24*	**454,214**	440,985
Office supplies		**146,794**	135,888
Representation		**110,244**	88,723
Transportation and travel		**57,356**	153,785
Advertising		**24,859**	159,392
Depreciation	*10*	**24,204**	32,554
Communication		**16,041**	89,309
Training		**3,600**	11,753
Bad debts written off		**-**	368,025
Miscellaneous		**5,412**	11,992
		P15,357,290	P17,496,896

Outside services represent the fees billed by Petron to the Company for the services rendered by the former to the latter under their Service Agreement.

21. Income Taxes

Income tax expense consists of:

	2019	2018
Current income tax	**P21,129,257**	P18,012,969
Deferred income tax	**(1,651,958)**	(619,492)
Final tax	**6,653,581**	4,880,749
	P26,130,880	P22,274,226

The reconciliation between income tax computed at statutory income tax rate of 30.00% and the Company's income tax expense is as follows:

	2019	2018
Income before income tax	**P105,199,995**	P102,857,346
Income tax computed at statutory income tax rate of 30%	**P31,559,999**	P30,857,204
Decrease in income tax resulting from tax effects of:		
Interest income subjected to final tax	**(3,311,277)**	(2,397,642)
Excess of OSD over itemized deductions	**(2,416,940)**	(6,197,806)
Non-deductible expense	**7,500**	-
Others	**291,598**	12,470
Income tax expense	**P26,130,880**	P22,274,226

Deferred tax assets arise from the following:

	Note	**2019**	2018
Amount Charged to Profit or Loss			
Provision for loss reserves		**P2,017,370**	P911,622
Provision for loss adjustments		**1,900,369**	36,907
IBNR claims		**696,749**	567,654
Deferred reinsurance commissions		**343,167**	409,847
Unrealized foreign exchange (gain) loss		**(677,388)**	410,681
Allowance for impairment loss		**-**	291,598
		4,280,267	2,628,309
Amount Charged to OCI			
Changes in fair value of investments in debt securities (gain) loss		**(100,152)**	464,478
	25	**P4,180,115**	P3,092,787

The movements of deferred tax assets are accounted for as follows:

	2019	2018
Amount charged to profit or loss	**(P1,651,958)**	(P619,493)
Amount charged to OCI	**564,631**	(119,771)
	(P1,087,327)	(P739,264)

Optional Standard Deduction

Effective July 2008, Republic Act (RA) No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or OSD equivalent to 40.00% of gross income. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.

The Company opted to use OSD for its annual income tax return in 2019 and 2018.

22. Related Party Disclosures

The Company's related parties include its parent company, entities under common control and others as described below. Details of related party transactions in 2019 and 2018 are as follows:

Category/Transaction	Note	Year	Amount of the Transaction	Outstanding Balance Due from Related Parties	Outstanding Balance Due to Related Parties	Terms	Conditions
Parent Company							
Premiums written	*7, 22.a*	**2019**	**P724,001,672**	**P117,966,359**	**P -**	On-demand;	Unsecured;
		2018	599,928,272	39,332,596	-	non-interest bearing	no impairment
Service fees	*19, 22.b*	**2019**	**31,051,400**	**-**	**-**	On-demand;	Unsecured;
		2018	30,815,875	-	-	non-interest bearing	no impairment
Claims	*12, 22.a*	**2019**	**2,261,938,403**	**-**	**1,508,205,853**	On-demand;	Unsecured;
		2018	1,582,042	-	45,500,000	non-interest bearing	no impairment
Management fee	*14, 22.c*	**2019**	**11,565,746**	**-**	**811,676**	On-demand;	Unsecured;
		2018	12,712,371	-	1,301,040	non-interest bearing	no impairment
Entities under Common Control							
Premiums ceded	*13, 22.a*	**2019**	**101,013,645**	**-**	**63,863,671**	On-demand;	Unsecured;
		2018	48,247,839	-	11,478,393	non-interest bearing	no impairment
Commissions earned	*13*	**2019**	**2,371,584**	**881,800**	**-**	On-demand;	Unsecured;
		2018	2,869,947	957,070	-	non-interest bearing	no impairment
Reinsurance recoverable on unpaid losses	*7*	**2019**	**-**	**6,976,543**	**-**	On-demand;	Unsecured;
		2018	570,657	7,244,527	-	non-interest bearing	no impairment
TOTAL		**2019**		**P125,824,702**	**P1,572,881,200**		
TOTAL		2018		P47,534,193	P58,279,433		

22.a In the normal course of business, the Company provides insurance cover to its parent company, Petron, and obtains certain reinsurance coverage from OVINCOR, a wholly-owned subsidiary of Petron and incorporated under the laws of Bermuda.

22.b The Company provides services to Petron other than underwriting services which are permitted under its Amended Articles of Incorporation.

22.c The Company entered into a management agreement with Petron for the latter to provide necessary manpower and office space facilities to support its operations for a period of four years. This agreement is effective from January 1, 2013 until either Petron or the Company provides a written notice of termination of the management agreement.

Total expenses charged to operations from this management agreement are as follows:

	Note	2019	2018
Outside services		**P11,085,842**	P12,178,836
Rent	*20, 24*	**454,214**	440,985
Advertising		**13,393**	64,755
Office supplies		**12,297**	12,188
Transportation and travel		**-**	15,607
		P11,565,746	P12,712,371

Key Management Compensation

There is no compensation for key management personnel in 2019 and 2018 since the key management roles are held by employees of Petron.

23. Capital Management and Regulatory Requirements

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and
- to provide an adequate return to shareholders by applying with the capital requirements and limitation enforced by the IC and aligning the Company's operation strategy to its corporate goals.

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is usually higher than the minimum capital requirements set by the IC and the amount computed under the risk-based capital model.

The Company manages capital through a process that determines future projected capital requirements through the development of long-term financial plans and projections that consider the impact of surplus of new business, profitability of in-force business and other major corporate initiatives that will affect capitalization levels.

The IC is interested in protecting the rights of the policyholders and maintaining close vigil to ensure that the Company is satisfactorily managing the affairs for policyholders' benefits.

The Company considers capital stock, contributed surplus, remeasurement of investments in debt securities and retained earnings as capital it manages.

There were no changes made to its capital base, objectives, policies and processes from previous years.

Net Worth Requirements
Under the Amended Insurance Code (Republic Act 10607) which was approved on August 15, 2013, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

Net Worth	Compliance Date
P250,000,000	On or before June 30, 2013
550,000,000	On or before December 31, 2016
900,000,000	On or before December 31, 2019
1,300,000,000	On or before December 31, 2022

As at December 31, 2019 and 2018, the Company has complied with the net worth requirements, based on internal calculations. The final amount of net worth can be determined only after the accounts of the Company have been examined by the IC, especially as to the admitted and non-admitted assets as defined under the Insurance Code.

RBC2 Requirements
IC Circular No. 2016-68, *Amended RBC2 Framework,* provides for the RBC2 framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the insurance companies in relation to the risks an insurance company is exposed to. Every non-life insurance company is annually required to maintain an RBC2 ratio of at least 100.00% and not to fail the trend test. Failure to meet the minimum RBC2 ratio shall subject the insurance company to regulatory intervention which could be at various levels depending on the degree of the violation.

The RBC2 ratio shall be calculated as total available capital (TAC) divided by the RBC2 requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits determined by IC. With Tier 1 Capital being the capital fully available to cover losses at all times on a going concern and winding up basis. And Tier 2 Capital as the capital that can also provide additional buffer to the insurance company, though it is not of the same high quality as Tier 1 Capital. RBC2 requirement shall be computed based on the formula provided in the Circular and shall include credit risk, insurance risk, market risk, operational risk, catastrophe risk, and surrender risk.

As at December 31, 2019 and 2018, the Company has complied with RBC2 requirements based on internal calculations.

The final RBC2 ratio can be determined only after the accounts of the Company have been examined by the IC, specifically as to admitted and non-admitted assets as defined under the Insurance Code.

24. Lease Commitments

The Company adopted the newly effective standard, PFRS 16, but the Company's lease agreement did not contain a specified asset thus, not considered as a lease contract under the provisions of PFRS 16. Hence, the Company still recognizes lease payments as expense on a straight-line basis over the lease term.

The Company has determined that the significant risks and rewards for properties leased from a related party are retained by the lessor.

On April 27, 2015, the Company has renewed its noncancelable operating lease agreement for office premises with terms of five (5) years which covered the periods from June 1, 2015 to May 31, 2020. The lease agreement includes escalation clauses that allow a reasonable increase in rates. The lease is renewable under certain terms and conditions.

As at December 31, future minimum rental payments under the new lease agreement are as follows:

	2019	2018
Within one year	**P191,581**	P454,214
After one year but not more than five years	**-**	191,581
	P191,581	P645,795

Rent expense amounting to P0.45 million and P0.44 million in 2019 and 2018, respectively, is presented as rent under the "General and administrative expenses" account in profit or loss (Notes 20 and 22).

25. Maturity Analysis of Assets and Liabilities

The following table show an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within 12 months and beyond 12 months from financial reporting date.

		December 31, 2019			December 31, 2018		
	Note	**Due Within 12 Months**	**Due Beyond 12 Months**	**Total**	Due Within 12 Months	Due Beyond 12 Months	Total
Financial Assets							
Cash and cash equivalents	*6*	**P595,050,133**	**P -**	**P595,050,133**	P357,611,605	P -	P357,611,605
Insurance receivables [1]	*7*	**119,069,931**	**-**	**119,069,931**	65,954,087	-	65,954,087
Investment in debt securities	*8*	**108,720,806**	**310,821,699**	**419,542,505**	40,202,969	338,273,157	378,476,126
Due from reinsurers [2]	*13*	**15,651,238**	**-**	**15,651,238**	11,919,386	-	11,919,386
Other assets [3]	*11*	**3,668,122**	**180,733**	**3,848,855**	2,583,860	180,733	2,764,593
		842,160,230	**311,002,432**	**1,153,162,662**	478,271,907	338,453,890	816,725,797
Non-financial Assets							
Insurance receivables [4]	*7*	**1,645,025,690**	**-**	**1,645,025,690**	57,597,082	-	57,597,082
Deferred reinsurance premiums	*9*	**41,139,133**	**-**	**41,139,133**	37,550,402	-	37,550,402
Property and equipment	*10*	**-**	**4,786,444**	**4,786,444**	-	4,786,444	4,786,444
Deferred tax assets	*21*	**-**	**4,180,115**	**4,180,115**	-	3,092,787	3,092,787
Other assets [5]	*11*	**8,417,038**	**-**	**8,417,038**	10,719,393	-	10,719,393
		1,694,581,861	**8,966,559**	**1,703,548,420**	105,866,877	7,879,231	113,746,108
Less							
Allowance for impairment loss	*7, 20*	**-**	**-**	**-**	-	971,993	971,993
Accumulated depreciation	*10*	**-**	**4,766,274**	**4,766,274**	-	4,742,070	4,742,070
		-	**4,766,274**	**4,766,274**	-	5,714,063	5,714,063
		P2,536,742,091	**P315,202,717**	**P2,851,944,808**	P584,138,784	P340,619,058	P924,757,842
Financial Liabilities							
Claims and losses payable [6]	*12*	**P1,678,483,024**	**P -**	**P1,678,483,024**	P53,381,601	P -	P53,381,601
Due to reinsurers	*13*	**109,348,879**	**-**	**109,348,879**	58,639,131	-	58,639,131
Accrued expenses and other liabilities [7]	*14*	**2,593,927**	**-**	**2,593,927**	3,333,664	-	3,333,664
		1,790,425,830	**-**	**1,790,425,830**	115,354,396	-	115,354,396
Nonfinancial Liabilities							
Insurance liabilities	*12*	**83,257,083**	**-**	**83,257,083**	56,507,961	-	56,507,961
Accrued expenses and other liabilities [8]	*14*	**26,394,438**	**-**	**26,394,438**	14,198,418	-	14,198,418
Deferred reinsurance commission	*15*	**1,143,892**	**-**	**1,143,892**	1,366,157	-	1,366,157
		110,795,413	**-**	**110,795,413**	72,072,536	-	72,072,536
		P1,901,221,243	**P -**	**P1,901,221,243**	P187,426,932	P -	P187,426,932

1 *Excluding Reinsurance recoverable on unpaid losses, Reinsures' share on IBNR and gross of Allowance for impairment loss*
2 *Included under "Due to reinsurers - net" account and gross of Allowance for impairment loss*
3 *Includes Interest receivable and Security deposit*
4 *Includes Reinsurance recoverable on unpaid losses and Reinsurers' share on IBNR*
5 *Includes Deferred input tax, Creditable withholding tax, Prepaid expense and Others account*
6 *Included under "Insurance liabilities" account*
7 *Includes Due to related party, Accounts payable, Accrued expenses and Unclaimed checks*
8 *Includes Payables to regulatory agencies (both National and Local) and Deferred credits*

26. Events After the Reporting Period

In response to the growing threat of Coronavirus Disease (COVID-19), which was declared by the World Health Organization as a global pandemic, Proclamation No. 922, Series of 2020, declared a state public health emergency throughout the Philippines.

The spread of COVID- 19 resulted to travel restrictions, home quarantine and temporary suspension or regulation of business operations, among others, limiting activities related to the provision of essential goods and services.

Generally, insurance companies will be affected by volatile markets which affected the fair value of the investments. Stock markets have declined in value and bond yields are at record lows which might result to possible impairment in investment portfolios. While implications in insurance liabilities will be mixed depending on the specific types of coverage provided and the accounting policies applied under PFRS 4. This will also affect the assumptions used in accounting for insurance liabilities, including the liability adequacy test, and balance sheet and capital ratios.

The Company expects lower premiums specifically those related to marine shipments as these were written on a per shipment basis. There has been a decrease in the Parent Company's importation of crude oil as demand for it dropped due to the COVID-19 pandemic.

With COVID-19 coronavirus pandemic interrupting businesses and insurance companies across the world and the aforementioned possible decline in premium and volatility of financial assets which may affect financial results, the Company does not consider these factors to affect its ability to continue as a going concern. The Company operates as a captive insurance of its Parent Company. Consequently, the Company still expects renewal of insurance policies and collection of such. Moreover, the Parent Company does not foresee any going concern issue affecting its business operations since it has a risk management system in place which includes commodity hedging to minimize potential losses from the effects of oil price movements. It has also activated its business continuity plans to cope with the situation.

Other financial impact could occur, although such will begin to manifest in the few months following the issuance of these financial statements. The Company has yet to quantify the overall potential impact of COVID-19 to these financial statements.

27. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010 of the Bureau of Internal Revenue (BIR)

The BIR has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to the financial statements. The Company presented the required supplementary tax information as a separate schedule attached to its annual income tax return.

Petrogen Insurance Corporation
SMC Head Office Complex, # 40 San Miguel Avenue,
Mandaluyong City 1550
Tel. No. (632) 8-884-9200
Fax No. (632) 8-884-9163
VAT Reg. TIN No.: 005-034-674-000

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **Petrogen Insurance Corporation** (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2019 and 2018**, in accordance with the prescribed financial reporting framework indicated therein, 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.

The Board of Directors (the "Board") is responsible for overseeing the Company's financial reporting process.

The Board reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

LUBIN B. NEPOMUCENO
Chairman

EMMANUEL E. ERAÑA
President/CEO

ALBERTITO S. SARTE
Treasurer

MYRNA C. GERONIMO
Controller

Signed this 9th day of March 2020

Name:

Address: 40 SAN MIGUEL AVENUE BASEMENT, SAN MIGUEL HEAD OFFICE COMPLEX,
Wack-wack Greenhills, CITY OF MANDALUYONG, METRO MANILA

Mobile Number:

Email:

Company Name: PETROGEN INSURANCE CORPORATION

SEC Registration #: A199604801

05072020203429

GIS: No

AFS: Yes

Return Copy: Yes

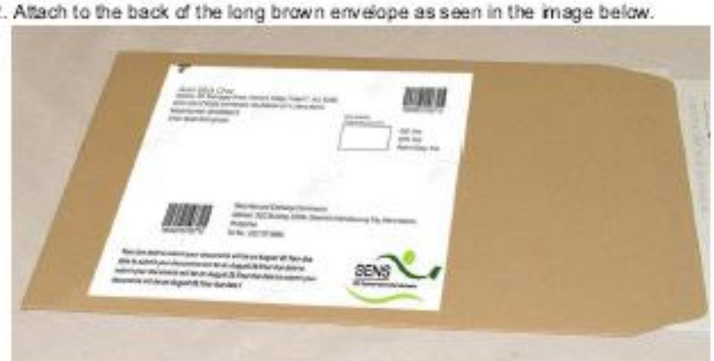
05072020203429

RECEIVING UNIT
Electronic Records Management Division, ICTD
Securities and Exchange Commission
Secretariat Bldg., PICC Complex,
Roxas Boulevard, Pasay City, 1307
Trunk line: 8818-0921 to 23 local 264

SENS
SEC Express Nationwide Submission

Instructions

1. Cut along the dashed line.
2. Attach to the back of the long brown envelope as seen in the image below.



3. Put inside the envelope 4 copies of AFS then seal.
4. Proceed to any nearest courier to submit.
5. Prepare prepaid return envelope and include it in the package.