BPI/MS Insurance Corporation

Financial Statements
As at and for the years ended December 31, 2023 and 2022

Independent Auditor's Report

To the Board of Directors and Shareholders of
BPI/MS Insurance Corporation
11th, 14th, 16th, and 18th Floors, BPI-Philam Life Makati
6811 Ayala Avenue
Makati City

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BPI/MS Insurance Corporation (the "Company") as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2023 and 2022;
- the statements of income for the years ended December 31, 2023 and 2022;
- the statements of total comprehensive income for the years ended December 31, 2023 and 2022;
- the statements of changes in equity for the years ended December 31, 2023 and 2022;
- the statements of cash flows for the years ended December 31, 2023 and 2022; and
- the notes to the financial statements, including material accounting policy information.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706; issued on January 12, 2024, Makati City
T.I.N. 112-071-386
BIR A.N. 08-000745-017-2021, issued on November 23, 2021; effective until November 22, 2024
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
March 7, 2024

BPI/MS Insurance Corporation

Statements of Financial Position
December 31, 2023 and 2022
(In thousands of Philippine Peso)

	Notes	2023	2022
ASSETS			
CASH AND CASH EQUIVALENTS	2	1,144,335	672,433
INSURANCE RECEIVABLE, net	3	3,128,853	3,079,602
REINSURANCE RECOVERABLE ON UNPAID LOSSES	4	2,956,062	3,022,169
DEFERRED REINSURANCE PREMIUM	4	2,882,172	2,836,651
DEFERRED ACQUISITION COST, net		2,426	4,825
AVAILABLE-FOR-SALE FINANCIAL ASSETS	6	6,237,416	5,564,497
HELD-TO-MATURITY FINANCIAL ASSETS	5	370,390	332,572
OTHER RECEIVABLES, net	7	86,265	90,121
ACCRUED INVESTMENT INCOME	8	36,871	28,433
PROPERTY AND EQUIPMENT, net	9	138,948	191,051
SOFTWARE COSTS, net	10	57,356	51,454
DEFERRED INCOME TAX, net	17	260,207	255,909
OTHER ASSETS, net	11	63,744	52,078
Total assets		**17,365,045**	**16,181,795**
LIABILITIES AND EQUITY			
RESERVE FOR OUTSTANDING LOSSES	4,15	4,113,645	4,000,343
RESERVE FOR UNEARNED PREMIUMS	4	4,413,117	4,281,707
DUE TO REINSURERS AND CEDING COMPANIES	4	2,680,552	2,116,863
FUNDS HELD FOR REINSURERS	4	438,394	443,708
ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER LIABILITIES	12	1,418,815	1,202,801
Total liabilities		**13,064,523**	**12,045,422**
SHARE CAPITAL	18	350,000	350,000
SHARE PREMIUM	18	425,972	425,972
RETAINED EARNINGS	18	3,789,373	3,752,872
ACCUMULATED OTHER COMPREHENSIVE LOSS	18	(264,969)	(392,617)
STOCK OPTIONS RESERVE		146	146
Total equity		**4,300,522**	**4,136,373**
Total liabilities and equity		**17,365,045**	**16,181,795**

(The notes on pages 1 to 57 are integral part of these financial statements.)

BPI/MS Insurance Corporation

Statements of Income
For the years ended December 31, 2023 and 2022
(In thousands of Philippine Peso)

	Notes	2023	2022
UNDERWRITING INCOME			
Premiums written, net		7,074,112	7,279,080
Reinsurance premiums		(4,235,620)	(4,763,455)
Net premiums retained		2,838,492	2,515,625
(Increase) decrease in reserve for unearned premiums, net		(85,889)	17,595
Premiums earned		2,752,603	2,533,220
Reinsurance commissions		553,284	482,869
Total underwriting income		**3,305,887**	**3,016,089**
UNDERWRITING EXPENSES			
Losses and claims, net of reinsurance		1,183,408	847,765
Commission expense		957,592	924,627
Total underwriting expenses		**2,141,000**	**1,772,392**
NET UNDERWRITING INCOME		**1,164,887**	**1,243,697**
GENERAL AND ADMINISTRATIVE EXPENSES			
Staff costs	13	438,506	455,076
Occupancy and equipment-related expenses	13	203,098	184,094
Professional fees		80,411	59,605
Communication and postage		26,420	24,240
Provision for (reversal of) impairment losses	3,7	26,189	(8,774)
Printing and supplies		23,101	25,748
Interest expense	4,21	13,714	16,636
Taxes and licenses		8,227	8,875
Training and development		8,772	8,214
Advertising and promotion		6,951	4,126
Association dues		6,373	6,616
Entertainment		4,548	4,891
Travel and transportation		5,307	2,935
Others		35,022	7,820
Total general and administrative expenses		**886,639**	**800,102**
OPERATING INCOME		**278,248**	**443,595**
INVESTMENT AND OTHER INCOME			
Interest income	16	271,263	185,889
Dividend income	6	23,119	17,778
(Loss) gain on sale of investments, net	6	(24,314)	25,544
Other income, net	16	12,194	19,627
Net investment and other income		**282,262**	**248,838**
INCOME BEFORE INCOME TAX		**560,510**	**692,433**
PROVISION FOR INCOME TAX	17	134,914	173,627
NET INCOME FOR THE YEAR		**425,596**	**518,806**

(The notes on pages 1 to 57 are integral part of these financial statements.)

BPI/MS Insurance Corporation

Statements of Total Comprehensive Income
For the years ended December 31, 2023 and 2022
(In thousands of Philippine Peso)

	Notes	2023	2022
NET INCOME FOR THE YEAR		**425,596**	**518,806**
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be subsequently reclassified to profit or loss	6,18		
Changes in fair value of available-for-sale financial assets		92,427	(162,657)
Fair value losses (gains) transferred to profit or loss		24,314	(25,544)
Item that will not be reclassified to profit or loss			
Remeasurement gains on defined benefit plan, net of tax effect	14,18	10,907	22,297
Other comprehensive income (loss), net of tax effect		**127,648**	**(165,904)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**553,244**	**352,902**

(The notes on pages 1 to 57 are integral part of these financial statements.)

BPI/MS Insurance Corporation

Statements of Changes in Equity
For the years ended December 31, 2023 and 2022
(In thousands of Philippine Peso)

	Share capital (Note 18)	Share premium (Note 18)	Retained earnings (Note 18)	Accumulated other comprehensive loss (Note 18)	Stock options reserve	Total equity
BALANCES AT JANUARY 1, 2022	**350,000**	**425,972**	**3,594,566**	**(226,713)**	**146**	**4,143,971**
COMPREHENSIVE INCOME						
Net income for the year	-	-	518,806	-	-	518,806
Other comprehensive loss	-	-	-	(165,904)	-	(165,904)
Total comprehensive income for the year	-	-	518,806	(165,904)	-	352,902
TRANSACTION WITH OWNERS						
Dividends declared and paid	-	-	(360,500)	-	-	(360,500)
BALANCES AT DECEMBER 31, 2022	**350,000**	**425,972**	**3,752,872**	**(392,617)**	**146**	**4,136,373**
COMPREHENSIVE INCOME						
Net income for the year	-	-	425,596	-	-	425,596
Other comprehensive income	-	-	-	127,648	-	127,648
Total comprehensive income for the year	-	-	425,596	127,648	-	553,244
TRANSACTION WITH OWNERS						
Dividends declared and paid	-	-	(389,095)	-	-	(389,095)
BALANCES AT DECEMBER 31, 2023	**350,000**	**425,972**	**3,789,373**	**(264,969)**	**146**	**4,300,522**

(The notes on pages 1 to 57 are integral part of these financial statements.)

BPI/MS Insurance Corporation

Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(In thousands of Philippine Peso)

	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	19	1,575,474	61,356
Contributions to retirement plan	14	(94,458)	(14,134)
Interest received		19,045	5,884
Interest paid		(4,662)	(2,693)
Income taxes paid		(86,040)	(25,883)
Net cash from operating activities		**1,409,359**	**24,530**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Held-to-maturity financial assets	5	(84,331)	-
Available-for-sale financial assets	6	(3,065,387)	(3,509,697)
Property and equipment	9	(15,464)	(15,948)
Software costs	10	(22,914)	(27,998)
Proceeds from:			
Maturities of held-to-maturity financial assets	5	45,571	25,000
Disposals of available-for-sale financial assets	6	2,472,975	3,678,233
Interest received		243,780	182,916
Dividends received		23,119	17,778
Income taxes paid		(57,361)	(49,798)
Net cash (used in) from investing activities		**(460,012)**	**300,486**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments on lease liabilities	21	(78,845)	(85,903)
Payments of cash dividend	18	(389,095)	(360,500)
Net cash used in financing activities		**(467,940)**	**(446,403)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**481,407**	**(121,387)**
CASH AND CASH EQUIVALENTS			
At January 1		672,433	728,355
Effect of exchange rate changes on cash and cash equivalents		(9,505)	65,465
At December 31	2	**1,144,335**	**672,433**

(The notes on pages 1 to 57 are integral part of these financial statements.)

BPI/MS Insurance Corporation

Notes to Financial Statements
As at and for the years ended December 31, 2023 and 2022
(All amounts are shown in thousands of Philippine Peso, unless otherwise stated.)

1 Corporate information

BPI/MS Insurance Corporation (the “Company”) was incorporated and registered with the Securities and Exchange Commission (“SEC”) primarily to carry on and engage in the business of insurance, reinsurance, bonding, fidelity and guaranty, except life insurance.

The Company’s immediate and ultimate parent company is the Bank of the Philippine Islands (“BPI” or Parent Company), a local universal bank listed in the Philippine Stock Exchange, Inc., with a 51.4% ownership. The other 48.5% is owned by MSIG Asia PTE. Ltd. (MA), a corporation registered in Singapore.

As at December 31, 2023, the Company has 518 employees (2022 - 521 employees).

The Company’s registered office address, which is also its principal place of business, is at the 11th, 14th, 16th and 18th Floors of BPI-Philam Life Makati, 6811 Ayala Avenue, Salcedo Village Bel-Air, City of Makati NCR, Fourth District, Philippines 1209.

Approval of the financial statements

These financial statements were approved and authorized for issuance by the Company’s Board of Directors (“BOD”) on March 7, 2024.

2 Cash and cash equivalents

The details of the account at December 31 follow:

	2023	2022
Cash on hand	9,206	9,235
Cash in banks		
Philippine peso	389,885	283,427
US dollar	171,804	249,027
Japanese yen	81,788	32,586
Time deposits		
Philippine peso	440,542	3,681
US dollar	51,110	94,477
	1,144,335	672,433

Cash in banks earn interest at prevailing bank deposit rates.

The Philippine peso and US dollar time deposits have maturities of 90 days or less from the date of acquisition. The Philippine peso time deposits have annual interest rates ranging from 0.125% to 5.4% in 2023 (2022 - 0.005% to 3.70%). The US dollar time deposits bear interest rates ranging from 3.53% to 4.36% in 2023 (2022 - 0.2125% to 3.57%).

Interest income earned on cash and cash equivalents for the year ended December 31, 2023 amounts to P17 million (2022 - P4 million) (Note 16). Interest income earned but uncollected is included as part of accrued investment income (Note 8).

Cash and cash equivalents are classified as current.

3 Insurance receivable, net

The details of the account at December 31 follow:

	2023	2022
Due from agents and brokers	2,792,620	2,879,175
Reinsurance recoverable on paid losses	266,696	143,148
Due from ceding companies	139,650	105,663
Funds held by ceding companies	17,299	15,876
	3,216,265	3,143,862
Allowance for impairment	(87,412)	(64,260)
	3,128,853	3,079,602

The movements in the allowance for impairment on amounts due from agents and brokers and reinsurance recoverable on paid losses for the years ended December 31 are as follows:

	2023			2022		
	Due from agents and brokers	Reinsurance recoverable on paid losses	Total	Due from agents and brokers	Reinsurance recoverable on paid losses	Total
At January 1	32,860	31,400	64,260	41,634	31,400	73,034
Provision for (reversal of) impairment losses	3,393	22,042	25,435	(8,774)	-	(8,774)
Write-off of long-outstanding receivables	-	(2,283)	(2,283)	-	-	-
At December 31	36,253	51,159	87,412	32,860	31,400	64,260

The Company has no directly written off bad debts for accounts which are not yet overdue but were determined to be not collectible in 2023 and 2022.

The following presents the breakdown of gross insurance receivables based on maturity profile at December 31:

	2023	2022
Current	3,079,223	2,971,840
Non-current	137,042	172,022
	3,216,265	3,143,862

4 Reinsurance balances

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

The details of reinsurance balances at December 31 are as follows:

	Notes	2023	2022
Insurance receivable, gross	3	3,216,265	3,143,862
Reinsurance balances			
Due to reinsurers and ceding companies		(2,680,552)	(2,116,863)
Funds held for reinsurers		(438,394)	(443,708)
Balance, net of reinsurance		97,319	583,291
Reserve for outstanding losses	15	4,113,645	4,000,343
Reinsurance recoverable on unpaid losses		(2,956,062)	(3,022,169)
Balance, net of reinsurance	15	1,157,583	978,174
Reserve for unearned premiums		4,413,117	4,281,707
Deferred reinsurance premium		(2,882,172)	(2,836,651)
Balance, net of reinsurance		1,530,945	1,445,056

All insurance and reinsurance assets and liabilities are substantially settled within one year.

Interest expense on funds held for reinsurers for the year ended December 31, 2023 amounts to P4.4 million (2022 - P2.7 million).

5 Held-to-maturity ("HTM") financial assets

The account consists of peso-denominated fixed-term treasury notes with interest rates ranging from 2.1% to 9.7% in 2023 and (2.1% to 9.7 % - 2022).

Movements in the account for the years ended December 31 follow:

	2023	2022
At January 1	332,572	362,621
Additions	84,331	-
Maturities	(45,571)	(25,000)
Amortization of premium, net	(942)	(5,049)
At December 31	370,390	332,572

On September 20, 2013, President Benigno S. Aquino III signed Republic Act No. ("R.A.") 10607, otherwise known as the "Amended Insurance Code" (the "amended Code") into law. Under Section 209 of the amended Code, to the extent of 25% of the insurance company's minimum net worth, the insurance company should invest in bonds and other debt securities approved by the Insurance Commission ("IC") as a security for the benefit of the Company's policyholders and creditors. As at December 31, 2023 and 2022, government securities totaling P5 billion, of which P333.25 million is earmarked in the HTM financial assets, are deposited with the Bureau of Treasury ("BTr") in accordance with the provision of the amended Code as a security for the benefit of policyholders and creditors of the Company.

The fair value of the HTM financial assets at December 31, 2023 amounts to P372 million (2022 - P335 million). The following presents the breakdown of HTM financial assets based on maturity profile at December 31:

	2023	2022
Current	185,002	45,960
Non-current	185,388	286,612
	370,390	332,572

Interest income earned from HTM financial assets for the year ended December 31, 2023 amounts to P25 million (2022 - P13 million) (Note 16). Interest income earned but uncollected is included as part of accrued investment income (Note 8).

6 Available-for-sale ("AFS") financial assets

AFS financial assets at December 31 consist of:

	2023	2022
Equity securities		
Listed shares	832,037	805,155
Unlisted shares	6,017	8,635
Debt securities		
Government debt securities	4,723,535	4,313,190
Corporate bonds	490,412	422,135
Investment in mutual funds	185,415	15,382
	6,237,416	5,564,497

The Company has an Investment Management and Custodianship Agreement with BPI Asset & Management Trust Corporation, operating under the trade name BPI Wealth ("BPI Wealth"), a related party under common control, with respect to the above AFS financial assets.

Listed equity securities include common shares of BPI at December 31, 2023 amounting to P50 million (2022 - P48 million).

Movements in the account for the years ended December 31 follow:

	2023	2022
At January 1	5,564,497	5,914,923
Additions	3,065,387	3,509,697
Disposals	(2,472,975)	(3,678,233)
Amortization of premium, net	(12,037)	(25,204)
Net fair value gain (loss)	92,427	(162,657)
Exchange differences	117	5,971
	6,237,416	5,564,497

Dividend income earned from listed equity securities as of December 31, 2023 amounts to P23 million (2022 - P18 million).

Debt securities have interest rates ranging from 1.97% to 9.50% in 2023 (2022 - 1.97% to 6.25%). Interest income earned on debt securities for the year ended December 31, 2023 amounts to P226 million (2022 - P167 million) (Note 16). Interest income earned but uncollected is included as part of accrued investment income (Note 8).

For the year ended December 31, 2023, the Company sold certain AFS financial assets, which resulted in a loss of P24 million (2022 - P25 million gain). Proceeds from disposals of AFS financial assets for the year ended December 31, 2023 amount to P2 billion (2022 - P4 billion).

The following presents the breakdown of AFS financial assets based on maturity profile at December 31:

	2023	2022
Current	1,183,136	949,176
Non-current	5,054,280	4,615,321
	6,237,416	5,564,497

Equity securities and investments in mutual funds do not have contractual maturities but are expected to be realized within 12 months from the reporting date and classified as current.

7 Other receivables, net

The details of the account at December 31 follow:

	2023	2022
Mortgage loans - employees	1,018	1,242
Accounts receivable		
Trade	15,701	22,925
Non-trade	42,813	39,021
Creditable withholding taxes	27,487	26,933
	87,019	90,121
Allowance for impairment	(754)	-
	86,265	90,121

Accounts receivable - non-trade consists mainly of employee salary and car facility loans while accounts receivable - trade represents receivable from agents and credit card companies for the unremitted premium collections.

The Company has a Service Agreement with the Parent Company for the processing, servicing and administration of the latter's mortgage and other loans (Note 20).

Interest income on mortgage and other loans for the year ended December 31, 2023 amounts to P3 million (2022 - P2 million) (Note 16). Interest income earned but uncollected is included as part of accrued investment income (Note 8).

In 2023, the Company recognized an impairment on its accounts receivable-non-trade amounting to P0.8 million. There is no movement in the allowance for impairment on accounts receivable - non-trade in 2022.

The following presents the breakdown of other receivables, based on maturity profile at December 31:

	2023	2022
Current	73,158	73,174
Non-current	13,861	16,947
	87,019	90,121

8 Accrued investment income

The account at December 31 represents income earned but not yet received from the following:

	Notes	2023	2022
Cash in bank			
Time deposits	2	877	24
Financial assets			
HTM financial assets	5	2,586	2,737
AFS financial assets	6	33,332	25,672
Loans and receivables	7		
Mortgage loans		12	-
Salary loans		20	-
Car loans		44	-
		36,871	28,433

The amounts presented above are expected to be realized within one year.

9 Property and equipment, net

The movements in the account for the years ended December 31 are as follows:

	Condominium units	EDP equipment	Furniture, fixtures and office equipment	Leasehold improvements	Transportation equipment	Buildings and improvements	Total
Year ended December 31, 2023							
Opening net book value	10,540	11,503	2,102	7,936	4,051	154,919	191,051
Additions	-	4,412	911	4,926	5,215	23,538	39,002
Depreciation charge	(5,064)	(8,522)	(1,616)	(3,016)	(3,474)	(69,413)	(91,105)
Closing net book value	5,476	7,393	1,397	9,846	5,792	109,044	138,948
At December 31, 2023							
Cost	126,687	170,924	41,254	173,130	25,818	431,294	969,107
Accumulated depreciation	(121,211)	(163,531)	(39,857)	(163,284)	(20,026)	(322,250)	(830,159)
Net book value	5,476	7,393	1,397	9,846	5,792	109,044	138,948
Year ended December 31, 2022							
Opening net book value	15,604	11,654	2,211	10,548	3,205	148,330	191,552
Additions	-	9,046	1,465	437	5,000	72,791	88,739
Depreciation charge	(5,064)	(9,197)	(1,574)	(3,049)	(4,154)	(66,202)	(89,240)
Closing net book value	10,540	11,503	2,102	7,936	4,051	154,919	191,051
At December 31, 2022							
Cost	126,687	166,512	40,343	168,204	20,603	407,756	930,105
Accumulated depreciation	(116,147)	(155,009)	(38,241)	(160,268)	(16,552)	(252,837)	(739,054)
Net book value	10,540	11,503	2,102	7,936	4,051	154,919	191,051

Buildings and improvements pertain to right-of-use assets from leased spaces for the Company's main office and branches (Note 21).

Condominium units pertain to properties owned by the Company for its own use.

Depreciation charge is included in Occupancy and equipment-related expenses in the statement of income (Note 13).

10 Software costs, net

The movements in the account for the years ended December 31 follow:

	2023	2022
At January 1	51,454	40,868
Additions	22,914	27,998
Amortization charge	(17,012)	(17,412)
At December 31	57,356	51,454

Amortization charge is included in Occupancy and equipment-related expenses in the statement of income (Note 13).

11 Other assets, net

The details of the account at December 31 follow:

	Notes	2023	2022
Rental deposits	21	32,186	31,848
Prepayments		19,462	17,529
Retirement asset	14	9,395	-
Investment in an associate, net		2,364	2,364
Security fund		267	267
Assets held-for-sale, net	24	70	70
		63,744	52,078

Prepayments consist of medical and uniform allowance, bonus of employees as well as advance payment to SAP Philippines and residential allowance of Japanese expats.

Investment in an associate at December 31, 2023 and 2022 consist of the acquisition cost of the 49% ownership in FCS Insurance Agency and Consultants, Inc., net of allowance for impairment of P1.9 million. There is no additional provision for impairment in 2023 and 2022.

12 Accounts payable, accrued expenses and other liabilities

The details of the account at December 31 are as follows:

	Notes	2023	2022
Taxes payable		638,960	443,561
Accounts payable		368,747	268,422
Accruals and provisions		202,266	123,466
Lease liabilities	21	123,490	169,745
Cash collateral		85,352	127,282
Retirement benefit obligation	14	-	70,325
		1,418,815	1,202,801

Taxes payable includes outstanding liabilities on value-added tax, withholding tax, premium tax, final tax, fringe benefit tax, fire service tax and local government tax.

Accounts payable includes payroll liabilities to government agencies and unapplied bank credits.

Accruals and provisions consist mainly of service fees due to related parties (Note 20) and other service providers, outstanding liabilities to suppliers for goods and services received, unpaid commissions and other provisions.

Cash collateral pertains to cash deposits posted primarily by building contractors as security for the bond issued by the Company.

Maturity profile of accounts payable, accrued expenses and other liabilities at 31 December follows:

	2023	2022
Current	901,307	973,478
Non-current	517,508	229,323
	1,418,815	1,202,801

13 Staff costs; Occupancy and equipment-related expenses

Staff costs

The details of the account for the years ended December 31 are as follows:

	Note	2023	2022
Salaries and wages		349,512	350,095
Retirement benefits	14	29,281	49,187
Social security costs		20,061	17,137
Medical and hospital allowances		15,532	15,733
Other employee benefits		24,120	22,924
		438,506	455,076

Other employee benefits pertain primarily to group term insurance and fringe benefits of personnel.

Occupancy and equipment-related expenses

The details of the account for the years ended December 31 are as follows:

	Notes	2023	2022
Depreciation charge	9	91,105	89,240
Repairs and maintenance		61,114	45,046
Rental and utilities		24,773	23,486
Amortization charge	10	17,012	17,412
Contract labor		9,094	8,910
		203,098	184,094

Rental and utilities include rent expense for short-term leases (Note 21) and utility costs for water and electricity.

14 Post-employment benefit plan

The Company has a trusteed defined benefit plan. Under the plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 175% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 125% of his basic monthly salary if he has rendered less than 10 years of service.

The defined benefit cost and contributions to be paid by the Company are determined by an independent actuary by applying the projected unit credit method.

The amounts of retirement benefit obligation at December 31 are as follows:

	Notes	2023	2022
Present value of obligation		295,072	284,503
Fair value of plan assets		(304,467)	(214,178)
Retirement benefit asset (obligation)	11,12	9,395	(70,325)

The movements in the present value of defined retirement benefit obligation for the years ended December 31 are as follows:

	2023	2022
At January 1	284,503	281,285
Current service cost	26,642	46,018
Interest cost	20,313	14,008
Benefits paid	(27,737)	(11,381)
Remeasurements arising from:		
Changes in financial assumptions	20,069	(44,139)
Changes in demographic assumptions	160	1,592
Experience adjustments	(28,878)	(2,880)
At December 31	295,072	284,503

The movements in the fair value of plan assets for the years ended December 31 are as follows:

	2023	2022
At January 1	214,178	216,283
Contributions	94,458	14,134
Asset return in net interest cost	17,674	10,839
Benefits paid	(27,737)	(11,381)
Remeasurement - return on plan assets	5,894	(15,697)
At December 31	304,467	214,178

The Company has no further transactions with the fund other than the contributions presented above for 2023 and 2022.

The net asset value of the plan assets as at December 31, 2023 and 2022 is the same as its fair value. These assets, which are held in trust and governed by local regulations and practices in the Philippines, are as follows:

	2023		2022	
	Amount	%	Amount	%
Government debt securities	235,401	77.32	151,073	70.85
Corporate and other debt securities	9,999	3.28	18,061	8.47
Equity securities	38,837	12.76	31,698	14.87
Others	20,230	6.64	13,346	5.81
	304,467	100.00	214,178	100.00

Plan assets, in the form of equity securities, of the retirement plan include investment in BPI's common shares with fair value as at December 31, 2023 of P3 million (2022 - P2 million).

The Company ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Company's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is agreed, as necessary to better ensure the appropriate asset-liability matching.

The expected maturity analysis of undiscounted retirement benefit payments as at December 31 is as follows:

	2023	2022
Less than a year	30,692	37,536
Between 1-5 years	174,545	33,853
Between 5-10 years	226,149	34,918
Between 10-15 years	179,151	39,841
Between 15-20 years	160,269	50,535
Over 20 years	290,587	222,156
	1,061,393	418,839

The average remaining service life of employees as at December 31, 2023 and 2022 is 25.1 years. The Company contributes to the plan depending on the suggested funding contribution as calculated byan independent actuary. The expected contributions for 2024 amounts to P27 million.

The amounts recognized in other comprehensive income (“OCI”) for the years ended December 31 are as follows:

	2023	2022
Remeasurement gains (losses)		
Due to changes in financial assumptions	(20,069)	44,139
Due to changes in demographic assumptions	(160)	(1,592)
Due to experience adjustments	28,878	2,880
Remeasurement - return on plan assets	5,894	(15,697)
	14,543	29,730
Deferred income tax	(3,636)	(7,433)
Net amount	10,907	22,297

The amounts recognized in the statement of income under Staff costs (Note 13) for the years ended December 31 are as follows:

	2023	2022
Current service cost	26,642	46,018
Net interest cost	2,639	3,169
	29,281	49,187

The principal actuarial assumptions used as at and for the years ended December 31 are as follows:

	2023	2022
Discount rate	6.08%	7.14%
Salary increase rate	5.00%	5.00%

Discount rate

The discount rate was determined in accordance with the Philippine Interpretations Committee (“PIC”) approved Q&A 2008-01 (Revised), which mandates that discount rates reflect (a) benefit cash flows and (b) use of zero-coupon rates, even though theoretically derived.

The procedure of bootstrapping was applied to the Bankers Association of the Philippines (BAP) PHP Bloomberg BVAL Reference Rates (BVAL) benchmark reference curve for the government securities to arrive at the theoretical zero-coupon yield curve. These derived rates were then used to compute the present value of the expected future benefit cash flows across valuation years.

Future salary increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

Assumptions regarding mortality experience are set based on published statistics and experience in the Philippines.

The defined benefit plan typically exposes the Company to a number of risks such as investment risk, interest rate risk and salary risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement obligation. A decrease in government bond yields will increase the defined retirement benefit. Hence, the present value of defined retirement benefit obligation is directly affected by the discount rate to be applied by the Company. However, the Company believes that due to the long-term nature of the retirement obligation and the strength of the Company itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Company's long-term strategy to manage the plan efficiently.

The sensitivity of the defined retirement benefit obligation to changes in the weighted principal assumptions at December 31 follows:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
At December 31, 2023			
Discount rate	0.50%	(21,478)	18,999
Rate of salary increase	1.00%	(21,495)	19,357
At December 31, 2022			
Discount rate	0.50%	(20,358)	18,038
Rate of salary increase	1.00%	(20,591)	18,551

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the retirement liability at the reporting date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

15 Provision for losses and claims

(a) Process used to decide on assumptions

A loss is registered immediately upon receipt of a notice of claim from policyholders. Since insurance companies are required to set-up provisional loss reserves, a physical inspection is done on the damaged property to ensure a more accurate estimate on the amount of loss. For property and engineering insurance, services of a professional adjustment firm are sought to do the inspection, investigation and data gathering while marine surveyors are contacted to do loss surveys for marine losses. Motor car losses are mostly handled by the Company's motor car damage evaluators. Suretyship losses are handled by the Company's Bonds Department and external loss adjusters.

(b) Changes in assumptions and sensitivity analysis

The general insurance claims provision is sensitive to the Company's past claims development experiences. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claims provisions are not known with certainty at the reporting date.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

The analysis below is performed for a reasonable possible movement in key assumptions, with all other assumptions held constant, on income and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis. It should also be stressed that these assumptions are non-linear and larger or smaller impacts cannot easily be gleaned from these results.

The key assumptions considered in the sensitivity analysis are as follows:

- Initial Expected Loss Ratio ("IELR") for accident year
- Selected Ultimate Loss Ratio ("ULR")

The IELR is a parameter used in the Expected Claims Ratio and Bornhuetter-Ferguson methods. These methods are usually used by actuaries to estimate the claim liabilities for more recent accident periods where there is little credible data.

The selected ULR is derived from the best estimation of claims reserve and is a major factor to determine the actuarial unexpired risk reserve which is a component of premium liabilities. A change in the expected ULR also affects the claim liabilities as it is a function of ultimate losses.

To show the sensitivity of this assumption at December 31, the impact of changing IELR and ULR by 10% multiplicatively is shown in the table below.

	2023				2022			
	IELR		ULR		IELR		ULR	
	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%
Gross liabilities	96	(96)	292	(292)	70	(70)	202	(202)
Net liabilities	41	(41)	165	(165)	29	(29)	132	(132)
Income before tax	(41)	41	(165)	165	(29)	29	(132)	132
Equity	(30)	30	(124)	124	(22)	22	(99)	99

(c) Insurance policy reserve

On March 9, 2018, the IC, through its Circular Letter (CL) No. 2018-18, issued the Valuation Standards for Non-Life Insurance Policy Reserves. This circular supersedes the previously issued CL No. 2016-67. Among others, the Valuation Standards for Non-Life Insurance Policy Reserves provides for:

(i) the determination of premium liabilities on an aggregate basis as follows. A computation should be performed to determine whether the Unearned Risk Reserve (URR) required is greater or smaller than the Unearned Premium Reserve (UPR), net of Deferred Acquisition Cost (DAC). If the URR is greater, then the difference should be booked as an additional reserve on top of the UPR as the total premium liabilities;
(ii) consideration of the Claims Handling Expense (CHE);
(iii) consideration of Margin for Adverse Deviation (MfAD) to allow for inherent uncertainty of the best estimate of policy reserve; and
(iv) certification of an actuary on the calculation of the insurance policy reserve in accordance with the Valuation Standards for Non-Life Insurance Policy Reserves prescribed by the IC.

The adoption of the Valuation Standards for Non-Life Insurance Policy Reserves is consistent with the "E-3 Reserving Policy" for MSIG Asia Pte Ltd, except for the premium liabilities, which is defined as the higher of UPR, net of DAC and URR, on an aggregate basis. While the definition of premium liabilities is slightly different from c(i), there is no financial impact arising from this difference. In determining its Insurance Policy Reserve, the Company considered actual historical claims data for the last 11 years, CHE at 11% of the best estimate of IBNR and outstanding claims and MfAD at 10% of claims liabilities and 12% of expected loss on UPR. The Company has engaged its Regional Actuary in determining its Insurance Policy Reserve and this is subsequently reviewed and certified by an independent actuary accredited by the Insurance Commission.

As at December 31, 2023, the Company's UPR, net of DAC, is determined to be higher than the URR. As such, the Company did not require any additional provision in respect to the unearned premiums. Moreover, the Company has applied entity-specific MfAD for both claims and premiums liabilities to calculate policy reserves at the 75% sufficiency level. The MfAD is calculated based on a combination of bootstrapping and the Mack method using the Company's own data.

As at December 31, 2023, the total gross policy reserve amounts to P8,527 million (2022 - P8,282 million), which includes provision for IBNR losses of P1,317 million (2022 - P1,187 million) while the total net policy reserve amounts to P2,689 million (2022 - P2,423 million), which includes provision for IBNR losses of P491 million (2022 - P473 million).

Claims development table

Presented below is a table that shows the development of claims, at gross and net reinsurance, over a period of time on a gross and net of reinsurance basis.

Gross of reinsurance

As at December 31, 2023	Accident Year					
Year of Payment	2019	2020	2021	2022	2023	Total
2019	1,499,979	-	-	-	-	1,499,979
2020	613,442	1,551,899	-	-	-	2,165,341
2021	(76,047)	124,829	1,230,508	-	-	1,279,290
2022	(72,765)	(32,340)	1,452,174	1,050,262	-	2,397,331
2023	(11,311)	49,665	(140,732)	186,640	1,700,538	1,784,800
Current estimate of claims	1,953,298	1,694,053	2,541,950	1,236,902	1,700,538	9,126,741
Cumulative payments to date	(1,868,867)	(1,455,161)	(2,137,001)	(1,009,190)	(635,672)	(7,105,891)
Liability recognized in the statement of financial position	84,431	238,892	404,949	227,712	1,064,866	2,020,850
Liability in respect of prior years						776,198
Total gross liability included in the statement of financial position, excluding IBNR						2,797,048
Provision for IBNR						1,316,597
Reserve for outstanding losses (Note 4)						4,113,645

As at December 31, 2022	Accident Year					
Year of Payment	2018	2019	2020	2021	2022	Total
2018	2,319,644	-	-	-	-	2,319,644
2019	(33,353)	1,499,979	-	-	-	1,466,626
2020	(101,017)	613,442	1,551,899	-	-	2,064,324
2021	(10,641)	(76,047)	124,829	1,230,508	-	1,268,649
2022	5,491	(72,765)	(32,340)	1,452,174	1,050,262	2,402,822
Current estimate of claims	2,180,124	1,964,609	1,644,388	2,682,682	1,050,262	9,522,065
Cumulative payments to date	(2,120,957)	(1,818,257)	(1,369,416)	(1,563,231)	(572,765)	(7,444,626)
Liability recognized in the statement of financial position	59,167	146,352	274,972	1,119,451	477,497	2,077,439
Liability in respect of prior years						735,672
Total gross liability included in the statement of financial position, excluding IBNR						2,813,111
Provision for IBNR						1,187,232
Reserve for outstanding losses (Note 4)						4,000,343

Net of reinsurance

As at December 31, 2023	Accident Year					
Year of Payment	2019	2020	2021	2022	2023	Total
2019	1,156,703	-	-	-	-	1,156,703
2020	269,426	855,446	-	-	-	1,124,872
2021	(22,460)	96,948	795,910	-	-	870,398
2022	(10,159)	(11,932)	78,463	800,403	-	856,775
2023	(3,218)	21,300	2,275	76,737	1,063,996	1,161,090
Current estimate of claims	1,390,292	961,762	876,648	877,140	1,063,996	5,169,838
Cumulative payments to date	(1,373,384)	(946,857)	(850,527)	(819,681)	(570,210)	(4,560,659)
Liability recognized in the statement of financial position	16,908	14,905	26,121	57,459	493,786	609,179
Liability in respect of prior years						57,085
Total gross liability included in the statement of financial position, excluding IBNR						666,264
Provision for IBNR						491,319
Reserve for outstanding losses (Note 4)						1,157,583

As at December 31, 2022	Accident Year					
Year of Payment	2018	2019	2020	2021	2022	Total
2018	1,214,683	-	-	-	-	1,214,683
2019	146,065	1,156,703	-	-	-	1,302,768
2020	6,359	269,426	855,446	-	-	1,131,231
2021	1,216	(22,460)	96,948	795,910	-	871,614
2022	(211)	(10,159)	(11,932)	78,463	800,403	856,564
Current estimate of claims	1,368,112	1,393,510	940,462	874,373	800,403	5,376,860
Cumulative payments to date	(1,363,002)	(1,368,059)	(901,526)	(815,174)	(477,372)	(4,925,133)
Liability recognized in the statement of financial position	5,110	25,451	38,936	59,199	323,031	451,727
Liability in respect of prior years						53,380
Total gross liability included in the statement of financial position, excluding IBNR						505,107
Provision for IBNR						473,067
Reserve for outstanding losses (Note 4)						978,174

16 Interest income; Other income, net

Interest income

The details of the account for the years ended December 31 are as follows:

	Notes	2023	2022
Interest income from:			
AFS financial assets	6	225,830	166,758
HTM financial assets	5	25,459	13,228
Cash and cash equivalents	2	16,888	3,551
Mortgage and other loans	7	3,086	2,352
		271,263	185,889

Other income, net

The details of the account for the years ended December 31 are as follows:

	Note	2023	2022
Settlement fees		6,903	7,351
Rental income		677	4,031
Foreign exchange (loss) gain, net	24	(11,273)	22,086
Investment fees		(13,852)	(10,840)
Miscellaneous income (expense)		29,739	(3,001)
		12,194	19,627

Miscellaneous income (expense) pertains mainly to reversal of certain liabilities and non-credit receivable after it has been established that there is no further payment needed or collection to be made by the Company.

17 Income taxes

The details of the account for the years ended December 31 follow:

	2023	2022
Current	142,848	151,736
Deferred	(7,934)	21,891
	134,914	173,627

Current tax for the year ended December 31, 2023 includes final tax of P57,361 (2022 - P46,875).

The movements in deferred income tax ("DIT") assets and liabilities for the years ended December 31 are as follows:

2023	At January 1	Credited (charged) to income	Charged to Accumulated other comprehensive loss	At December 31
DIT assets				
Excess of reserve for unearned premium recognized over tax basis, net	117,542	(13,840)	-	103,702
Allowance for impairment	16,560	5,977	-	22,537
Contingent profit commission	5,880	(507)	-	5,373
Accruals and provisions	2,892	1,895	-	4,787
Retirement benefit obligation	17,580	(16,293)	(3,636)	(2,349)
Performance bonus payout	(2,869)	57	-	(2,812)
Provision for IBNR, net of reinsurance	118,267	4,562	-	122,829
	275,852	(18,149)	(3,636)	254,067
DIT liabilities				
DAC	(1,206)	600	-	(606)
Unrealized foreign exchange gain, net	(18,737)	25,483	-	6,746
	(19,943)	26,083	-	6,140
Net DIT assets	255,909	7,934	(3,636)	260,207

2022	At January 1	Credited (charged) to income	Charged to Accumulated other comprehensive loss	At December 31
DIT assets				
Excess of reserve for unearned premium recognized over tax basis, net	131,534	(13,992)	-	117,542
Allowance for impairment	18,874	(2,314)	-	16,560
Contingent profit commission	5,294	586	-	5,880
Accruals and provisions	2,875	17	-	2,892
Retirement benefit obligation	16,251	8,762	(7,433)	17,580
Performance bonus payout	-	(2,869)	-	(2,869)
Provision for IBNR, net of reinsurance	121,625	(3,358)	-	118,267
	296,453	(13,168)	(7,433)	275,852
DIT liabilities				
DAC	(10,577)	9,371	-	(1,206)
Unrealized foreign exchange gain, net	(643)	(18,094)	-	(18,737)
	(11,220)	(8,723)	-	(19,943)
Net DIT assets	285,233	(21,891)	(7,433)	255,909

The reconciliation between the provision for income tax computed at the statutory income tax rate and the actual provision for income tax at December 31 follows:

	2023	2022
Income before income tax	560,510	692,433
Income tax at statutory tax rate of 25%	140,128	173,108
Add (deduct):		
Income subject to lower final tax rate, net	(9,940)	(901)
Tax-exempt income, net	(14,129)	(25,762)
Non-deductible expenses	18,855	27,182
Provision for income tax	134,914	173,627

18 Equity

18.1 *Share capital; share premium*

Details of share capital as at December 31, 2023 and 2022 follow:

	Number of shares	Amount (in thousands)
Authorized share capital (at P100 par value per share)	3,550,000	355,000
Issued share capital	3,500,000	350,000

The excess of proceeds from the issuance of share capital at par value, which amounted to P426 million, is credited to share premium.

18.2 *Retained earnings*

As at December 31, 2023 and 2022, the Company has excess retained earnings over its paid-up capital.

In 2008, the SEC issued Memorandum Circular No. 11 providing the guidelines in determining the appropriate amount of retained earnings available for dividend distribution taking into consideration the effective guidelines of the SEC.

On January 24, 2013, the SEC issued Financial Reporting Bulletin No. 14, *Reconciliation of Retained Earnings Available for Dividend Declaration*, which prescribed adjustments as indicated in Annex 68-C of SRC Rule 68.

On September 25, 2023, the SEC issued revised guidelines on the determination of retained earnings available for dividend declaration under SEC Memorandum Circular No. 16 Series of 2023: *Revised Guidelines on the Determination of Retained Earnings Available for Dividend Declaration*, which takes into account unrealized gains and other items following the effective financial reporting standards.

Consistent with the provision of the Corporation Code of the Philippines, stock corporations are generally prohibited from retaining surplus profits in excess of 100% of their paid-up capital.

The amended Code provides that no domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements of the amended Code.

The Company plans to use the excess retained earnings over its paid-up capital as at December 31, 2023 amounting to P3.0 billion (2022 - P3.0 billion) as follows:

- Buffer to support growth as the Company projects to grow 11.5%, 13.0%, and 8.0% in 2024, 2025, and 2026 respectively.
- As additional financial resources for future uncertainties, particularly for catastrophe losses, as based on a stress test using a natural catastrophe (typhoon scenario), capital requirement should be at least 270% RBC ratio to withstand the losses and remain above the minimum regulatory requirement.

The Company's management evaluates on an annual basis the declaration of dividend with due consideration on the regulatory requirement of the IC on fixed capitalization and RBC as well as the Company's Capital Management Plan. The approval of the Company's BOD is secured as appropriate.

18.3 *Dividends*

The Company's BOD declared the following cash dividends in 2023 and 2022:

Declaration date	Record date	Date paid	Dividend amount	Dividend per share
June 15, 2023	June 15, 2023	July 28, 2023	P389,095	P111.17
September 13, 2022	Sept 13, 2022	October 29, 2022	P360,500	P103.00

18.4 *Accumulated other comprehensive loss*

Details of and movements in accumulated other comprehensive loss for the years ended December 31 follow:

	Notes	2023	2022
Fair value reserve on AFS financial assets			
At January 1		(378,425)	(190,224)
Changes in fair value of AFS financial assets	6	92,427	(162,657)
Fair value loss (gain) transferred to profit or loss		24,314	(25,544)
At December 31		(261,684)	(378,425)
Remeasurement losses on defined benefit plan, net			
At January 1		(14,192)	(36,489)
Remeasurements for the year	14	14,543	29,730
DIT effect	17	(3,636)	(7,433)
At December 31		(3,285)	(14,192)
		(264,969)	(392,617)

The related changes in the fair value of AFS financial assets are not subjected to tax since the related financial assets have a maturity of more than 5 years.

19 Cash generated from operations

The details of cash generated from operations for the years ended December 31 follow:

	Notes	2023	2022
Income before income tax		560,510	692,432
Adjustments for:			
Depreciation and amortization	9,10	108,117	106,652
Retirement benefits	14	29,281	49,187
Amortization of premium, net	5,6	12,979	30,253
Interest expense	4,21	13,714	16,636
Unrealized foreign exchange loss (gain), net	24	26,982	(74,948)
Provision for (reversal of) impairment losses	3,7	26,189	(8,774)
Loss (gain) on sale of AFS financial assets	6	24,314	(25,544)
Dividend income	6	(23,119)	(17,778)
Interest income	16	(271,263)	(185,889)
Operating income before changes in operating assets and liabilities		507,704	582,227
Changes in operating assets and liabilities			
(Increase) decrease in:			
Insurance receivable, net		(97,605)	(841,263)
Reinsurance recoverable on unpaid losses		66,107	748,570
Deferred reinsurance premium		(45,521)	(915,922)
Deferred acquisition cost, net		2,399	37,484
Other receivables, net		3,656	(107,784)
Other assets		(2,269)	9,446
Increase (decrease) in:			
Reserve for outstanding losses		113,302	(848,757)
Reserve for unearned premiums		131,410	898,326
Due to reinsurers and ceding companies		569,011	385,479
Funds held for reinsurers		(5,314)	100,628
Accounts payable, accrued expenses and other liabilities		332,594	12,922
Cash generated from operations		1,575,474	61,356

20 Related party transactions and balances

The table below summarizes the Company's transactions and balances with its related parties.

As at and for the year ended December 31, 2023:

	Transactions for the year	Outstanding receivable (payable) balances	Terms and conditions
Cash in bank			
Parent	565,342	945,115	Bank deposits with the Parent Company, subject to prevailing interest rate, which can be withdrawn any time.
	565,342	945,115	
Premiums written			
Parent	89,722	64,510	Premiums provided for general insurance liability and insurance coverage of various properties, collectible in cash within 90 days
Entities under common control	5,436	3,559	Premiums provided for group personal accident, general insurance liability and insurance coverage of various properties, collectible in cash within 90 days.
Investor of Parent	13,751	735	Premiums provided for general insurance liability and
Other related parties	397,305	47,674	insurance coverage of various properties, collectible in cash within 90 days.
	506,214	116,478	
Reinsurance transactions with Parent shareholder			
Reinsurance premiums ceded	577,745	515,531	The outstanding balances are settled in cash and are
Reinsurance commissions	142,684	-	due within 30 - 90 days after the end of each quarter.
Interest expense on premium reserve withheld	1,071	-	
	721,500	515,531	
Service fees			
Distribution of non-life insurance products			
Parent	207,828	53,386	Service fees arising from the distribution of non-life insurance products which are covered by a service agreement. Service fees are payable in cash on a quarterly basis and are included in commission expense in statement of income.
Usage of credit card facility			
Parent	26,368	-	Subsidy fees arising from the usage of credit card facility
Associate of Parent	5,005	-	in settlement of insurance premiums by the policyholders based on agreed rates, which are automatically netted against the remittance. These subsidy fees are included in commission expense in statement of income.
	239,201	53,386	
Commission expense			
Entity under common control	5,148	-	Commission fees on policies generated for the Company,
Other related parties	7,717	-	payable in cash upon remittance of premiums.
	12,865	-	
Claims-related expenses			
Other related parties	35,471	-	Cost of parts and repairs pertaining to motor insurance claims of policyholders, payable in cash on demand.
Staff costs			
Key management personnel	35,433	-	Payments to key management personnel that include remuneration and bonuses are payable in cash within the year and first quarter of the following calendar year, respectively.

	Transactions for the year	Outstanding receivable (payable) balances	Terms and conditions
Retirement benefits			
Key management personnel	2,680	-	Refer to Note 14 - Post-employment benefit plan.
Occupancy and equipment-related expenses			
Parent	5,163	-	These are covered by lease agreements payable in cash within 5 days after end of each month.
Associate of Parent	27,227	-	
Other related party	36,618	-	
	69,008	-	
Interest income			
Parent	16,702	-	Interest income from bank deposits with the Parent Company which can be withdrawn any time.
	16,702	-	
Dividend income			
Parent	1,709	-	Collectible in cash upon the declaration of different parties.
Investor of Parent	334	-	
Other related parties	4,676	-	
	6,719	-	
Rental and other income			
Parent	1,099	-	Income from sub-lease of office space, including common area usage expenses, which is collectible in cash on a monthly basis as well as gain on sale of equities
Other expenses			
Parent	39,957	-	Expenses incurred by the Parent Company and shareholders as per diem in various meetings and service agreements covering general management support services, processing, servicing and administration of mortgage and other loans, actuarial and enterprise risk management services as well as certain IT services, which are payable in cash within a month following the billing date.
Shareholders	50,925	12,456	
Entity under common control	12,022	-	Expenses incurred under an Investment Management and Custodianship Agreement pertaining to the Company's investments. Payable in cash on demand.
Associate of Parent	2,317	-	Expenses related to group term and group hospitalization plans, which are payable in cash on a quarterly basis
Other related party	707	-	Expenses incurred in relation to club membership fee and for services related to healthcare
	105,928	12,456	

As at and for the year ended December 31, 2022:

	Transactions for the year	Outstanding receivable (payable) balances	Terms and conditions
Cash in bank			
Parent	57,864	379,773	Bank deposits with the Parent Company and a fellow subsidiary, subject to prevailing interest rate, which can be withdrawn any time.
Entity under common control	(1,278)	-	
	56,586	379,773	
Premiums written			
Parent	113,960	27,844	Premiums provided for general insurance liability and insurance coverage of various properties, collectible in cash within 90 days
Entities under common control	712	503	Premiums provided for group personal accident, general insurance liability and insurance coverage of various properties, collectible in cash within 90 days.
Associate of Parent	448	359	Premiums provided for general insurance liability and insurance coverage of various properties, collectible in cash within 90 days.
Investor of Parent	66,513	455	
Other related parties	258,015	281,501	
	439,648	310,662	
Reinsurance transactions with Parent shareholder			
Reinsurance premiums ceded	893,863	402,698	The outstanding balances are settled in cash and are due within 30 - 90 days after the end of each quarter.
Reinsurance commissions	150,644	53,077	
Interest expense on premium reserve withheld	132	-	
	1,044,639	455,775	
Service fees			
Distribution of non-life insurance products			
Parent	197,656	(49,221)	Service fees arising from the distribution of non-life insurance products which are covered by a service agreement. Service fees are payable in cash on a quarterly basis and are included in commission expense in statement of income.
Entity under common control	275,000	-	
Usage of credit card facility			
Parent	28,259	-	Subsidy fees arising from the usage of credit card facility in settlement of insurance premiums by the policyholders based on agreed rates, which are automatically netted against the remittance. These subsidy fees are included in commission expense in statement of income.
Associate of Parent	4,916	-	
	505,831	(49,221)	
Commission expense			
Entity under common control	1,721	-	Commission fees on policies generated for the Company, payable in cash upon remittance of premiums.
Other related parties	9,858	-	Commission fees on policies generated for the Company, payable in cash upon remittance of premiums.
	11,579	-	
Claims-related expenses			
Other related parties	31,980	-	Cost of parts and repairs pertaining to motor insurance claims of policyholders, payable in cash on demand.
Staff costs			
Key management personnel	26,616	-	Payments to key management personnel that include remuneration and bonuses are payable in cash within the year and first quarter of the following calendar year, respectively.
Retirement benefits			
Key management personnel	1,747	-	Refer to Note 14 - Post-employment benefit plan.
Occupancy and equipment-related expenses			
Parent	15,563	-	These are covered by lease agreements payable in cash within 5 days after end of each month.
Entity under common control	-	-	
Associate of Parent	26,930	-	
Other related party	30,455	-	
	72,948	-	

	Transactions for the year	Outstanding receivable (payable) balances	Terms and conditions
Interest income			
Parent			Interest income from bank deposits with the Parent Company and a fellow subsidiary which can be withdrawn any time.
Entity under common control	2,865	-	
	2,865	-	
Dividend income			
Parent	106	-	Collectible in cash upon the declaration of different parties.
Investor of Parent	4,961	-	
Other related parties	499	-	
	5,566	-	
Rental and other income			
Parent	7,974	-	Income from sub-lease of office space, including common area usage expenses, which is collectible in cash monthly basis as well as gain on sale of equities
Other related parties	1,539		
Other expenses			
Parent	15,343	-	Expenses incurred by the Parent Company and shareholders as per diem in various meetings and service agreements covering general management support services, processing, servicing and administration of mortgage and other loans, actuarial and enterprise risk management services as well as certain IT services, which are payable in cash within a month following the billing date.
Shareholders	38,318	7,400	
Entity under common control	8,964	-	Expenses incurred under an Investment Management and Custodianship Agreement pertaining to the Company's investments. Payable in cash on demand.
Associate of Parent	4,256	-	Expenses related to group term and group hospitalization plans, which are payable in cash on a quarterly basis
	66,881	7,400	

The outstanding balances presented are unguaranteed and unsecured, non-interest bearing and collectible/payable in accordance with the credit terms. The amounts are settled in cash at gross amounts. There are no guarantees provided or collaterals held arising from transactions with related parties. No provision for impairment has been made for amounts owed by related parties since collection is deemed to be reasonably certain.

21 Lease commitments

The Company has entered into various lease agreements covering its branches with terms ranging from one to five years. In accordance with the terms of the lease agreements, the Company paid P32 million deposits (2022 - P32 million) which are refundable at the end of the lease term and is included as part of Other assets, net in the statement of financial position (Note 11).

The lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Details of right-of-use assets and lease liabilities at December 31 are as follows:

	Notes	2023	2022
Right-of-use assets			
Buildings and improvements	9	109,044	154,919
Lease liabilities			
Current		25,263	56,565
Non-current		98,227	113,180
	12	123,490	169,745

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate.

Movements in the lease liabilities for the years ended December 31 follow:

	2023	2022
At January 1	169,745	160,244
Additions during the year		
Lease liabilities on contracts entered during the year	23,538	81,461
Interest accretion on lease liabilities	9,052	13,943
Payments during the year		
Interest on lease liabilities	(9,052)	(13,943)
Principal portion of lease liabilities	(69,793)	(71,960)
At December 31	123,490	169,745

The total cash outflow for leases in 2023 amounts to P79 million (2022 - P86 million).

The statement of income shows the following amounts relating to leases for the years ended December 31:

	Notes	2023	2022
Depreciation expense on			
Buildings and improvements	9	69,413	66,202
Interest expense		9,052	13,943
Rent expense relating to short-term leases	13	7,037	8,197

22 Additional information on the results of operation by line of business

Details of the results of operation by line of business follow:

For the year ended December 31, 2023

	Fire	Motor	Marine	Casualty	Bonds	Total
Premiums written, net	4,278,608	1,954,631	290,843	422,650	127,380	7,074,112
Reinsurance premiums ceded	(3,752,665)	(69,621)	(114,988)	(219,978)	(78,368)	(4,235,620)
Net premiums retained	525,943	1,885,010	175,855	202,672	49,012	2,838,492
(Increase) decrease in reserves	(23,969)	(63,748)	(20,031)	12,468	9,391	(85,889)
Premiums earned	501,974	1,821,262	155,824	215,140	58,403	2,752,603
Reinsurance commissions	447,135	317	21,578	27,816	56,438	553,284
Underwriting income	949,109	1,821,579	177,402	242,956	114,841	3,305,887
Gross claims incurred	879,556	866,825	123,042	59,409	(14,803)	1,914,029
Reinsurance recoveries	(614,957)	(1,430)	(94,310)	(28,164)	8,240	(730,621)
Claims and losses, net	264,599	865,395	28,732	31,245	(6,563)	1,183,408
Commission expense	464,207	305,533	62,284	78,682	46,886	957,592
Underwriting expenses	728,806	1,170,928	91,016	109,927	40,323	2,141,000
General and administrative expenses						(886,639)
Operating income						278,248
Investment and other income						282,262
Income before income tax						560,510
Provision for income tax						(134,914)
Net income for the year						425,596

For the year ended December 31, 2022

	Fire	Motor	Marine	Casualty	Bonds	Total
Premiums written, net	4,642,992	1,700,904	319,234	444,863	171,087	7,279,080
Reinsurance premiums ceded	(4,205,549)	(63,955)	(162,803)	(223,949)	(107,199)	(4,763,455)
Net premiums retained	437,443	1,636,949	156,431	220,914	63,888	2,515,625
(Increase) decrease in reserves	(63,698)	82,494	690	2,002	(3,893)	17,595
Premiums earned	373,745	1,719,443	157,121	222,916	59,995	2,533,220
Reinsurance commissions	396,463	232	24,454	25,319	36,401	482,869
Underwriting income	770,208	1,719,675	181,575	248,235	96,396	3,016,089
Gross claims incurred	1,486,860	863,795	7,287	46,637	515	2,405,094
Reinsurance recoveries	(1,472,373)	(70,664)	(2,359)	(12,680)	747	(1,557,329)
Claims and losses, net	14,487	793,131	4,928	33,957	1,262	847,765
Commission expense	441,043	293,424	68,095	73,382	48,683	924,627
Underwriting expenses	455,530	1,086,555	73,023	107,339	49,945	1,772,392
General and administrative expenses						(800,102)
Operating income						443,595
Investment and other income						248,838
Income before income tax						692,433
Provision for income tax						(173,627)
Net income for the year						518,806

23 Critical accounting estimates, assumptions and judgments in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments 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. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

23.1 Critical accounting estimates

The ultimate liability arising from claims made under insurance contracts (Note 15)

Provision is made at the reporting date for the estimated cost of claims incurred but not settled at the reporting date. The liability for outstanding claims includes the cost of claims reported but yet to be paid, IBNR, CHE, including MfAD, to address uncertainty in the estimate of claims.

The process of establishing liability estimates is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience becomes available or as regulations change. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is available. Classes of business which have a longer reporting tail and where the IBNR proportion of the total reserve is therefore high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these liabilities. For the short-tailed classes, claims are typically reported soon after the claim event, and tend to display less variation. In calculating the required levels of provisions, the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

In arriving at the liability estimates, management also make allowance for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in patterns of claim incidence, reporting, processing, finalization and payment;
- changes in the legal environment;
- the impact of inflation (both economic/wage and superimposed);
- changes in the mix of business;
- the impact of large losses;
- medical and technological developments;
- changes in policyholder behavior

The methods used to analyze past claim experience and to project future claim experience are largely determined by the available data and the nature of the portfolio. The projections given by the different methodologies assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Outstanding claims are calculated on both the gross and net of reinsurance basis. The amounts recoverable from reinsurers under insurance contracts are estimated based on the difference in outstanding claim amounts between the gross and net of reinsurance basis. Future cash flows are not discounted for the time value of money.

The carrying value of reserve for outstanding losses, gross and net of reinsurance, as at December 31, 2023 amounts to P4,113 million (2022 - P4,000 million) and P1,157 million (2022 - P978 million), respectively.

Sensitivity analysis is further disclosed in Note 15 (b).

Estimated useful lives of property and equipment (Note 9) and software (Note 10)

The useful life of each of the Company’s property and equipment and software is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A change in the estimated useful life of any item of property and equipment and software would impact the recorded costs and expenses and decrease non-current assets.

The sensitivity of depreciation and amortization expense to changes in estimated useful life of property and equipment and software as at December 31 follows:

	2023	2022
Increase by 10%	14 million	9 million
Decrease by 10%	17 million	9 million

Measurement of retirement benefit obligation (Note 14)

The determination of the Company's retirement benefit obligation at each reporting period is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

In determining the appropriate discount rate, the Company considers the market yield of government bonds with terms to maturity approximating the terms of the retirement benefit obligation as well as the expected rate of return on plan assets based on the average historical earnings of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. Other key assumptions for retirement liability are based in part on current market conditions.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect retirement obligations and employee benefits.

The sensitivity analyses for the significant actuarial assumptions are disclosed in Note 14.

Determination of incremental borrowing rate (Note 21)

The lease payments are discounted using the Company's incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:

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

The Company's incremental borrowing rates applied to the lease liabilities range from 7.29% to 7.46%. The rates were determined in reference to the prevailing bank market rates applicable to the leased properties with similar terms and conditions.

The Company has assessed that it is impracticable to present the sensitivities arising from the impact of upward/downward changes in the discount rates used in the determination of lease liabilities without undue efforts; as such, the sensitivity analysis was no longer presented.

23.2 Critical accounting judgments

Determination of the lease term (Note 21)

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The Company's existing contracts as at December 31, 2023 and 2022 have enforceable extension option provisions.

Classification of HTM financial assets (Note 5)

The Company follows the guidance of PAS 39, *Financial Instruments: Recognition and Measurement*, in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM financial assets. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class to AFS financial assets. The investments will therefore be measured at fair value and not at amortized cost.

Impairment of AFS financial assets (Note 6)

The Company follows the guidance of PAS 39 to determine when an AFS financial asset is impaired. This determination requires significant judgment.

For debt securities, the Company first assesses at each reporting date whether an objective evidence of impairment exists. A financial asset or group of financial asset is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. For equity investments, the determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Company treats ‘significant’ generally as 20% or more and ‘prolonged’ as greater than twelve (12) months. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the issuer, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Management believes, based on its assessment, that AFS financial assets are fully recoverable and not considered impaired at December 31, 2023 and 2022.

Impairment of other financial assets and reinsurance recoverable on unpaid losses

The Company reviews other financial assets and reinsurance recoverable on unpaid losses at each reporting date to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in determining the amount and timing of future cash flows when determining the level of allowance required. The amount and timing of recorded expenses for any period would differ if the Company made different judgment. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Other financial assets consist of insurance receivable, net (Note 3), other receivables, net (Note 7) and accrued investment income (Note 8).

The allowance for impairment recognized for other financial assets as at December 31 follows:

	Notes	2023	2022
Insurance receivable	3	87,412	64,260
Other receivables	7	754	-
		88,166	64,260

Management believes, based on its assessment, that the net carrying value of other financial assets are fully recoverable and not considered impaired at December 31, 2023 and 2022.

Recoverability of DIT assets (Note 17)

Management reviews at each reporting date the carrying amounts of DIT assets. The carrying amount of DIT assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the DIT assets will be applied.

Management believes that sufficient taxable profit will be generated to allow all or part of the DIT assets to be utilized.

DIT assets, net, as at December 31, 2023 amount to P260 million (2022 - P256 million).

Impairment of non-financial assets (Notes 9 and 10)

The Company's property and equipment and software are carried at cost less accumulated depreciation and amortization and impairment losses, if any. The carrying value is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those judgments could have a significant effect on the carrying value of propertyand equipment and the amount and timing of recorded provision for any period.

As at December 31, 2023 and 2022, management believes, based on its assessment, that there are no indications of impairment or changes in circumstances indicating that the carrying value of its property and equipment and software may not be recoverable.

The carrying value of the Company's property and equipment amounts to P139 million as at December 31, 2023 (2022 - P191 million) while the carrying value of the software amounts to P57 million as at December 31, 2023 (2022 - P51 million).

24 Insurance risk, financial risk and capital management

24.1 Insurance risk

Nature of risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk that the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency and severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Monitoring and controlling

The Company manages the insurance risk through its underwriting strategy and by entering into reinsurance arrangements. However, the risk is also dependent on the policyholders' rights to pay premiums, or to terminate the contract completely. The Company's underwriting guidelines provide the framework for the selection and classification of risks that are acceptable for coverage and ensure that the appropriate premium is charged in accordance with the risk class that they belong to.

Acceptances of insurable risks are limited to personnel with approved limits of authority and are set against the standards specified in the underwriting manuals of the Company.

Retention limits are specified for all classes as agreed with the reinsurers that form part of the reinsurance treaty agreements. Appropriate reinsurance program is in place to protect the Company from serious losses and catastrophic occurrences that may affect large number of insured risks. The Company deals only with reinsurers that have met its criteria. Furthermore, the risks of defaults by reinsurers are mitigated as most of the reinsurance placements are done only on the Company's approved list of reinsurers. The Company decides on its retention, or the absolute amount it is ready to assume from one event. The retention amount is a function of capital, experience, actuarial study and risk appetite or aversion. The retention amount is for the best type of risk and is further downgraded when the account is less than standard. In excess of its retention, the Company arranges reinsurance with reputable and financially sound insurance/reinsurance companies.

Frequency and severity of claims

The quality of the risks being insured by the Company is the main factor that would influence the frequency and severity of claims. With the diversity of the portfolio, the number and magnitude of losses differ a lot depending on the class of business. Risks with coverage for typhoon and flood perils, and changes in the climatic conditions could give rise to more frequent and severe losses.

Occurrences of any of the insured perils are unpredictable and with severity that can be ascertained only after the events have taken place. With the current size of the portfolio wherein the number of similar risks is not yet large enough, the expected outcome could vary considerably from year to year. Large number of insured risks in certain areas could be affected by any of the catastrophic events, such as earthquake, typhoon and flood.

For event losses like earthquake, typhoon and flood that can involve several retained amounts, the Company is secured by a reinsurance protection based on the Company's estimated maximum loss exposure. The same adheres to the IC's minimum catastrophe cover requirements. Severity is managed through loss prevention programs while frequency is managed through correct pricing.

Summarized below are the aggregate exposures (gross and net of reinsurance) of the Company to earthquake, typhoon and flood arising from the insurance contracts as at December 31:

	2023					
	Earthquake		Typhoon		Flood	
Zones	Gross	Retention	Gross	Retention	Gross	Retention
1	23,661,020	12,254,033	58,464,573	23,415,641	57,948,585	23,065,124
2	55,298,802	18,300,176	301,408,016	43,794,607	300,531,122	43,147,756
3	9,627,870	1,338,230	360,958,321	126,505,475	354,213,718	120,784,273
4	2,095,142	418,761	549,851,218	96,556,489	545,715,128	92,795,361
5	266,859,303	100,926,031	13,061,227	9,980,851	12,863,998	9,783,621
6	544,331,634	96,994,852	10,121,681	6,137,884	9,820,563	5,836,767
7	283,497,189	43,974,069	-	-	-	-
8	43,825,471	13,846,849	-	-	-	-
9	37,039,454	15,485,439	-	-	-	-
10	34,770,130	11,309,258	-	-	-	-
	1,301,006,015	314,847,698	1,293,865,036	306,390,947	1,281,093,114	295,412,902

	2022					
	Earthquake		Typhoon		Flood	
Zones	Gross	Retention	Gross	Retention	Gross	Retention
1	18,747,688	10,131,806	58,557,762	21,635,138	58,114,994	21,194,194
2	52,169,607	18,029,965	415,062,585	40,736,488	414,571,771	40,245,752
3	9,184,559	1,247,705	368,887,972	123,005,343	361,162,749	117,289,020
4	3,097,417	511,568	477,760,403	87,095,174	474,006,879	83,342,688
5	275,454,834	99,729,703	11,121,538	8,503,842	10,954,536	8,336,840
6	477,536,382	87,955,807	11,250,732	5,407,973	11,011,334	5,168,575
7	331,100,805	40,813,051	-	-	-	-
8	109,813,777	12,471,153	-	-	-	-
9	37,444,082	14,412,109	-	-	-	-
10	37,427,279	9,467,797	-	-	-	-
	1,351,976,430	294,770,664	1,342,640,992	286,383,958	1,329,822,263	275,577,069

Zones pertain to geographical locations prescribed by the IC. The Company addresses any concentration risk in certain geographical locations by having an adequate reinsurance protection.

Source of uncertainty in the estimation of future claim payments

The liability for insurance contracts comprises IBNR provision, provision for reported claims not yet paid and provision for unexpired risk at the reporting date.

The IBNR provision is based on actuarial assumptions using actual historical claims and loss reserves (Note 15).

Provisions for reported claims not yet paid are recognized when a claimable event occurs and reported to the Company. Loss reserves or estimates are recorded in the system upon registration of the claim based on the recommendation of accredited insurance loss adjusters. The outstanding claims are reviewed regularly, and loss reserves are adjusted if there is information that will justify the change or following the advice received from the assigned adjuster or evaluator as validated by claims personnel of the Company.

Provision for unexpired risk is based on the calculated best estimate of future claims and expenses for all classes of business, with MfAD. This best estimate relates to expected future claims payments and related expenses to be incurred after the valuation date, arising from future events.

24.2 Financial risk

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

The Company maintains a high level of liquid assets for the adequate and prompt servicing of its insurance liabilities. The Company's investible funds are managed by BPI Wealth. The investments are governed by the investment guidelines approved by the BOD and in compliance with the guidelines of the IC. The funds are generally in medium and long-term instruments, balancing the market risks against the desired yields, with provision for liquidity as defined by the Company. The working capital funds are invested in short-term instruments with BPI.

The Company's senior management approves the credit terms to be extended to intermediaries and reinsurance clients, evaluates the quality of receivables and the level of impairment, and decides the cancellation rules and credit and collection policies.

Internal controls are well-defined and compliance of the Company to such is closely monitored.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: market prices (price risk), foreign exchange rates (foreign exchange risk) and market interest rates (interest rate risk).

(i) Price risk

The Company's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally AFS equity securities and investments in mutual funds (Note 6).

To minimize the price risk exposure in equity securities and investments in mutual funds, the Company has put in place a loss cut policy in which the fund manager shall provide the Company's BOD an update and recommendation should the market value of an investment fall to less than 85% of the acquisition cost of any share.

Details of the Company's AFS equity securities and investments in mutual funds at December 31 follow:

	2023	2022
Equity securities		
Listed shares	832,037	805,155
Unlisted shares	6,017	8,635
Investment in mutual funds	185,415	15,382
	1,023,469	829,172

The analysis below presents the impact of reasonable possible movements in the Philippine Stock Exchange Index (PSEi) of existing investments in listed shares and the net asset value per share (NAVps) of mutual funds on the Company's fair value reserve as at December 31:

	2023		2022	
	Assumed volatility	Impact on equity	Assumed volatility	Impact on equity
PSEi of listed equity shares	+17%	141,446	+25%	201,289
	-17%	(141,446)	-25%	(201,289)
NAVps of mutual funds	+4%	7,417	+2%	308
	-4%	(7,417)	-2%	(308)

The assumed volatility in the PSEi on existing investments in listed shares is based on the historical year-on-year movements of the PSEi. The assumed volatility in NAVps on existing investments in mutual funds is based on the projected movement in the first quarter of the succeeding year.

The assumed volatilities are consistent with the assumption that all the variables are held constant and all the Company's listed equity instruments and investments in mutual funds moved according to the historical correlation with the stock index and NAVps, respectively.

The Company is not exposed to commodity price risk at December 31, 2023 and 2022.

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to both transactional and translational fluctuations in the value of its monetary assets and liabilities due to exchange rate movements of foreign currencies.

Transactional exposure arises from income earned and expenses paid in currencies other than the Company's functional currency (Philippine peso). Translational exposure arises on the conversion of the foreign currency denominated assets and liabilities into Philippine peso.

The insurance business of the Company is mostly denominated in local currency. Currency exposures arise from the holding of monetary assets and liabilities denominated in foreign currencies, mainly bank balances and deposits with financial institutions, insurance receivables, debt securities and due to reinsurers and ceding companies that are denominated in US dollar ("USD") or Japanese yen ("JPY"). The Company minimizes its exposure to any significant foreign exchange rate risk by generally investing in assets denominated in the same currency as the insurance and reinsurance liabilities.

The details of the Company's foreign currency-denominated monetary assets and liabilities as at December 31 are as follows:

	2023		2022	
	USD	JPY	USD	JPY
Assets				
Cash in banks	3,125	208,112	4,474	78,180
Time deposits	920	-	1,695	-
Insurance receivables	9,386	120,410	18,082	94,270
AFS financial assets	931	-	99	-
	14,362	328,522	24,350	172,450
Liabilities				
Due to reinsurers and ceding companies	12,953	102,319	24,886	47,945
Other liabilities	2,884	-	340	-
	15,837	102,319	25,226	47,945
Net foreign currency-denominated (liabilities) assets	(1,475)	226,203	(876)	124,505
Philippine peso equivalent	(81,961)	88,898	(48,841)	51,894

The exchange rates of one unit of USD and JPY into Philippine Peso as at December 31 are as follows:

	2023	2022
USD	55.567	55.755
JPY	0.393	0.416

Unrealized foreign exchange loss, net, recognized in the statement of income for the year ended December 31, 2023 amounts to P27 million (2022 - unrealized foreign exchange gain, net, of P75 million). Realized foreign exchange gain, net, in 2023 amounts to P16 million (2022 - realized foreign exchange loss, net of P53 million). These foreign exchange gains and losses are presented as part of Other expense (income), net, in the statement of income (Note 16).

The table below presents the impact of possible movements of Philippine Peso against the USD and JPY, with all other variables held constant, on the Company's income after tax for the years ended December 31. There is no impact on the Company's equity other than those already affecting income after tax.

	2023		2022	
	Change in exchange rate	Impact on Income after tax	Change in exchange rate	Impact on Income after tax
USD	+0.4%	(246)	+9%	(3,297)
	-0.4%	246	-9%	3,297
JPY	+5%	3,333	+6%	(2,335)
	-5%	(3,333)	-6%	2,335

The reasonably possible movement in foreign currency exchange rates is based on projection by the Company's investment manager using year-on-year historical experience.

(iii) Interest rate risk

Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating-rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk. The Company is not exposed to cash flow interest rate risk as none of its financial assets or liabilities have floating interest rates. The Company's exposure is only on fair value interest rate risk in respect of government debt securities and corporate bonds classified as AFS financial assets.

Interest rate risk is managed by targeting a desired return, which is reviewed periodically, based on the Company's long-term view on interest rates. Strict investment guidelines, as approved by BPI Wealth and the IC, are in place and reviewed regularly to provide the general direction for the investment funds and to monitor the risk undertaken.

The Company's policy is to pursue a stable return on investment in order to maintain solid solvency. Priority is given to safety and liquidity as these assets are mainly for payment of insurance claims.

Details of the Company's debt securities subject to interest rate risk at December 31 follow:

	2023	2022
AFS financial assets		
Government debt securities	4,723,535	4,313,190
Corporate bonds	490,412	422,135
	5,213,947	4,735,325

On the assumption that the interest rate had increased/decreased by 100 basis points at December 31, 2023, fair value reserve is expected to increase by P96 million (2022 - P160 million) or decrease by P74 million (2022 - P63 million) as a result of changes in the fair value of AFS debt financial assets. The assumptions are based on the reasonable possible shift of interest rate as determined by management based on historical year-on-year movements of similar instruments.

To minimize the interest rate risk, the Company does not pre-terminate its investments before their due date. It manages its working capital to ensure that funds are available when a liability becomes due.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk represents the loss that would be recognized if counterparties to insurance, reinsurance and investment transactions are unable or unwilling to fulfill their payment obligations.

(i) Maximum exposure to credit risk

Credit risk exposures as at December 31 are as follows:

	2023	2022
Cash and cash equivalents, excluding cash on hand	1,135,129	663,198
Insurance receivable, gross	3,216,265	3,143,862
Reinsurance recoverable on unpaid losses	2,956,062	3,022,169
HTM financial assets	370,390	332,572
AFS financial assets, excluding equity securities	5,399,362	4,750,707
Other receivables, gross		
Mortgage loans - employees	1,018	1,242
Accounts receivable		
Trade	15,701	22,925
Non-trade	42,813	39,021
Accrued investment income	36,871	28,433
Rental deposits (within other assets, net)	32,186	31,848
	13,205,797	12,035,977

Allowance for impairment on insurance receivable and other receivables as at December 31, 2023 aggregates P88 million (2022 - P64 million).

(ii) Credit risk management, risk limit and mitigation policies

Insurance and reinsurance receivable

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or group of counterparty, and to geographical and industry segments. Credit evaluations are performed on all policyholders, brokers, agents, reinsurers, financial institutions and other counterparties.

Reinsurance is used to manage insurance risks. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract.

The Company restricts its exposure to credit losses from its reinsurance business by entering into master netting arrangements with counterparties. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts (asset position) is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Company accredits its reinsurers and sets a limit as to what can be reinsured with such reinsurance company. The minimum rating allowed for a reinsurance counterparty is A - based on Standard & Poor's ("S&P") rating. The reinsurance treaties and the accreditation of reinsurers require the approval of the Company's BOD.

The credit risk arising from insurance operations is closely monitored by the Credit and Control Unit of the Sales and Marketing Division on an ongoing basis.

AFS debt instruments, HTM financial assets and cash in banks, including accrued investment income

One of the Company's primary investment objectives is to seek the preservation of its portfolio by mitigating the credit risk which is the risk of loss due to failure of the issuer to make good on its obligation when maturity becomes due. This is mitigated by investing in safe securities and diversifying its investment portfolio so that the failure of any one issuer would not materially affect the cash flow of the Company. Within the guidelines provided by the IC, BPI Wealth ensures that the Company invests in allowable categories of investment instruments and within the provided limitation as to the percentage of the portfolio that can be invested in a certain category. Presently, the Company has substantial investments in government securities.

For time deposits and debt securities, external ratings such as those provided by Philippine Rating Services Corporation ("Philratings") and S&P or their equivalents are used by the Company for managing credit risk exposures. Investments in these deposits and securities are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. Cash in banks are deposited with universal, commercial and thrift banks.

Mortgage loans

In measuring credit risk of mortgage loans, the Company considers three components: (i) the probability of default by the borrower on its contractual obligations; (ii) current exposures to the borrower and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review,when considered necessary. Limits on large exposures and credit concentration are approved by the BOD.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.

Other receivables

The Company's other receivables consist primarily of employees' salary and car facility loans as well as receivable from agents and credit card companies for the unremitted premiums collected.

Exposure to credit risk is low considering that the employees' loan is amortized monthly through salary deduction while agents' accounts are deducted from the commissions due to them. Exposure to credit risk on receivables from credit card companies is also low given that these companies have a good creditstanding with no history of default.

(iii) Credit ratings of cash and cash equivalents (excluding cash-on-hand), HTM and AFS financial assets (excluding equity securities)

The Company deposits its cash balance in universal, commercial and thrift banks to minimize credit risk exposure. Amounts deposited in these banks as at December 31 are as follows:

	2023	2022
Universal banks	974,361	399,439
Commercial banks	159,257	262,268
Thrift banks	1,511	1,491
	1,135,129	663,198

The table below presents the ratings of debt securities at December 31:

	HTM financial assets	AFS financial assets		Total
		Debt securities	Mutual funds	
2023				
S&P				
BBB+	370,390	4,730,811	-	5,101,201
Phil Ratings				
AAA	-	447,597	-	447,597
Aa+ to Aa-	-	5,566	-	5,566
Fitch				
BBB	-	29,973	-	29,973
Unrated	-	-	185,415	185,415
	370,390	5,213,947	185,415	5,769,752

	HTM financial assets	AFS financial assets		Total
		Debt securities	Mutual funds	
2022				
S&P				
BBB	332,572	4,313,190	-	4,645,762
BBB+	-	7,035	-	7,035
Phil Ratings				
AAA	-	377,189	-	377,189
Aa+ to Aa-	-	5,568	-	5,568
Fitch				
BBB	-	29,661	-	29,661
BB+	-	2,682	-	2,682
Unrated	-	-	15,382	15,382
	332,572	4,735,325	15,382	5,083,279

Insurance and other receivables and accrued investment income

Insurance and other receivables and investment income due and accrued at December 31 are summarized as follows:

2023	Neither past due nor impaired	Past due but not impaired 91-180 days	181-360 days	More than 360 days	Impaired	Gross carrying amount
Insurance receivable	2,657,329	383,980	37,914	49,630	87,412	3,216,265
Reinsurance recoverable on unpaid losses	960,190	374,399	1,559,699	61,774	-	2,956,062
Mortgage loans - employees	1,018	-	-	-	-	1,018
Accounts receivable						
Trade	15,400	-	-	301	-	15,701
Non-trade	15,747	6,706	6,046	13,560	754	42,813
Accrued investment income	36,871	-	-	-	-	36,871
	3,686,555	765,085	1,603,659	125,265	88,166	6,268,730

2022	Neither past due nor impaired	Past due but not impaired 91-180 days	181-360 days	More than 360 days	Impaired	Gross carrying amount
Insurance receivable	2,700,607	226,095	45,140	107,760	64,260	3,143,862
Reinsurance recoverable on unpaid losses	817,983	58,359	23,240	2,122,587	-	3,022,169
Mortgage loans - employees	-	-	-	1,242	-	1,242
Accounts receivable						
Trade	20,818	394	784	929	-	22,925
Non-trade	15,738	3,873	4,634	14,776	-	39,021
Accrued investment income	28,433	-	-	-	-	28,433
	3,583,579	288,721	73,798	2,247,294	64,260	6,257,652

The Company maintains a normal credit term of 90 days for insurance balances receivable and considers past due as those outstanding beyond 90 days.

The credit risk arising from mortgage loans is not significant as this is covered by collateral. For accounts receivable - non-trade, this will be deducted by the Company from the salary of the employees.

Majority of investment income due and accrued come from government securities issued and guaranteed by the Philippine government.

Further information on the impairment allowance is provided in Notes 3 and 7.

(iv) Rental deposits (within Other assets, net)

Rental deposits were made in connection with the lease arrangements with certain lessors and are refundable at the end of the lease term. The Company did not have history of losses arising from the inability of the lessors to refund their obligations. The credit risk is deemed minimal as the amount is fully performing as at reporting date.

(v) Repossessed or foreclosed collateral

As at December 31, 2023 and 2022, the Company has possession of collaterals held as security for mortgage and other loans with carrying amount of P0.07 million. The related foreclosed collaterals have aggregate fair value of P0.55 million.

Repossessed properties are sold as soon as practicable and are classified as assets held-for-sale included in other assets in the statement of financial position (Note 11).

Concentrations of risks

The Company's main credit exposure at their carrying amounts at December 31 as categorized by industry sectors follows:

2023	Financial institutions	Real estate	Others	Less allowance	Total
Cash and cash equivalents, excluding cash on hand	1,135,129	-	-	-	1,135,129
Insurance receivable, net	3,043,372	-	172,893	87,412	3,128,853
Reinsurance recoverable on unpaid losses	2,956,062	-	-	-	2,956,062
HTM financial assets	-	-	370,390	-	370,390
AFS financial assets, excluding equity securities	402,201	139,863	4,857,298	-	5,399,362
Other receivables, net					
Mortgage loans employees	-	-	1,018	-	1,018
Accounts receivable					
Trade	-	-	15,701	-	15,701
Non-trade	13,406	-	29,406	754	42,058
Accrued investment income	121	553	36,197	-	36,871
Rental deposits (within other assets, net)	1,527	-	30,659	-	32,186
	7,551,818	140,416	5,513,562	88,166	13,117,630

2022	Financial institutions	Real estate	Others	Less allowance	Total
Cash and cash equivalents, excluding cash on hand	663,198	-	-	-	663,198
Insurance receivable, net	2,974,859	-	169,003	64,260	3,079,602
Reinsurance recoverable on unpaid losses	3,022,169	-		-	3,022,169
HTM financial assets	-	-	332,572	-	332,572
AFS financial assets, excluding equity securities	29,661	-	4,721,046	-	4,750,707
Other receivables, net					
Mortgage loans - employees	-	-	1,242	-	1,242
Accounts receivable					
Trade	22,355	-	570	-	22,925
Non-trade	-	-	39,021	-	39,021
Accrued investment income	121	-	28,312	-	28,433
Rental deposits (within other assets, net)	1,917	-	29,931	-	31,848
	6,714,280	-	5,321,697	64,260	11,971,717

(c) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations when due. The Company manages the risk by close monitoring of cash flows to ensure that the operation maintains optimum levels of liquidity at all times sufficient to meet contractual obligations as and when they fall due.

It is also the Company's policy to maintain adequate liquidity to meet its cash flow requirements. Accordingly, each portfolio is structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities is consistent with the cash requirements in order to avoid the forced sale of securities prior to maturity.

The table summarizes the expected undiscounted cash flows of financial obligations. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

	2023	2022
Reserve for outstanding losses	4,113,645	4,000,343
Due to reinsurers and ceding companies	2,680,552	2,116,863
Funds held for reinsurers	438,394	443,708
Accounts payable and accrued expenses		
Cash collateral	85,352	127,282
Accounts payable*	365,544	265,316
Lease liabilities, including future interest	135,999	181,447
Accrued expenses**	152,790	111,897
	7,972,276	7,246,856

**Excludes payroll liabilities to government agencies*
**Excludes provisions for employee benefits and other provisions*

Valuation and maturity of reserve for outstanding losses are management's best estimate based on historical experience and statistical methods. Reserve for outstanding losses is paid within one year upon notification and large losses are generally covered by reinsurance.

Due to reinsurers and ceding companies are settled within the premium warranty period as stipulated in the insurance contract which normally covers one year.

Funds held for reinsurers are used to settle the Company's share in the net results obtained from the monthly production report. Amounts are expected to be settled within one year.

Accounts payable and accrued expenses are expected to be settled within one year.

Cash collateral covers construction bonds expected to be completed within one year.

The lease liabilities represent both current and non-current lease commitments. As at December 31, 2023, about P25 million (2022 - P57 million) of the total lease liabilities are determined to be current and are expected to be settled in the next 12 months.

24.3 Fair value determination

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The primary source of input parameters is Bloomberg. For unquoted equity instruments, reference is also made to the prior year's pricing which is assumed to be a reasonable approximation of fair value given the limited transactions and circumstances of the instruments. This level includes unlisted shares and HTM financial assets with fair values disclosed in the notes to financial statements.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The following table presents the fair value hierarchy of the Company's AFS financial assets (carried at fair value):

	Level 1	Level 2	Total
As at December 31, 2023			
AFS financial assets			
Debt securities	4,723,535	490,412	5,213,947
Equity securities	832,037	6,017	838,054
Investment in mutual funds	185,415	-	185,415
	5,740,987	496,429	6,237,416
As at December 31, 2022			
AFS financial assets			
Debt securities	4,313,190	422,135	4,735,325
Equity securities	805,155	8,635	813,790
Investment in mutual funds	15,382	-	15,382
	5,133,727	430,770	5,564,497

There were no AFS financial assets under Level 3 of the fair value hierarchy. There were no transfers between Level 1 and Level 2 hierarchy as at and for the years ended December 31, 2023 and 2022.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, the Company considers factors specific to the asset or liability. The fair value hierarchy of HTM financial assets not carried at fair value but for which the fair value is disclosed is Level 1 as at December 31, 2023 and 2022.

Fair value of HTM financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

The carrying values of other financial assets and financial liabilities approximate their respective fair values at reporting date.

24.4 Capital management

The Company's objectives when managing capital (total equity as shown in the statement of financial position) are:

- to maintain sufficient capital to meet the regulatory requirements as prescribed under the existing regulations; and,
- to maintain a prudent buffer of financial resources to protect the Company's economic viability and finance new growth opportunities.

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, fixed capitalization requirements, risk-based capital requirements). Section 201 of the amended Code provides that no domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements of the amended Code and except for the profits attested in a sworn statement to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired capital as follows.

(a) The entire paid-up capital stock;
(b) The solvency requirements defined by the amended Insurance Code;
(c) The legal reserve fund; and
(d) A sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

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

With the issuance of the IC of CL 2016-69, mandating the implementation of new Financial Reporting Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework effective January 1, 2018, the Company is no longer required to compute and submit the margin of solvency.

Consolidated compliance framework

The Consolidated Compliance Framework prescribes the capital requirements aimed at assuring a secure level of stability for the life and non-life insurance industries. Established by the IC under Insurance Memorandum Circular ("IMC") No. 10-2006, this framework integrates the compliance standards for the fixed capitalization and RBC2 framework. The former was issued to secure the solvency position of insurers and to adequately protect the insuring public. The latter was issued to establish a more efficient capital structure attuned to the risks carried by individual insurers and in step with the government's prudential regulatory measures.

(a) Fixed capitalization requirements

Under Section 194 of the amended Insurance Code, domestic insurance companies' required minimum statutory net worth is as follows:

	Amount
By June 30, 2013	P250 million
By December 31, 2016	550 million
By December 31, 2019	900 million
By December 31, 2022	1.3 billion

Net worth shall consist of paid-up capital, retained earnings, unimpaired surplus, and revaluation of assets as may be approved by the Insurance Commissioner.

On May 15, 2020, the IC issued CL No. 2020-60, which provides regulatory relief on net worth requirements where all insurance companies already in compliance with the net worth requirements under Section 194 of the amended Code before the declaration of the enhanced community quarantine affected by the crisis are relieved from the quarterly compliance of net worth requirements of P900 million. Provided however that for all insurance companies who are not compliant with the net worth requirements prescribed under the amended Code before the declaration of the enhanced community quarantine, they are required to put up additional funds to cover the deficiency before availing the relief.

The Company is compliant with the minimum statutory net worth requirement as at December 31, 2023 and 2022.

(b) RBC2 Framework

On December 28, 2016, the IC issued CL No. 2016-68 which provides for the Amended RBC 2 Framework effective January 1, 2017. The CL provides that the RBC ratio of a non-life insurance company is calculated by dividing the total available capital by the RBC requirement. Total available capital is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and deductions prescribed by the IC.

The non-life RBC requirement considered the following components set by the IC:

(i) credit risk capital charge;
(ii) insurance risk capital charge;
(iii) market risk capital charge for equities;
(iv) market risk capital charge for other than equities;
(v) operational risk capital charge; and
(vi) catastrophe risk capital charge.

The minimum RBC ratio is to be established at 100%. All non-life insurance companies are required to maintain the minimum RBC ratio and not fail the trend test. Failure to meet the minimum RBC ratio will trigger regulatory intervention by the IC.

On the same date, the IC issued CL No. 2016-69 which provides that on the following year of implementation of the Amended RBC 2 Framework, the RBC requirement will be relaxed to consider the level of sufficiency to be 95th percentile for year 2017, 97.5th percentile for year 2018 and 99.5th percentile for year 2019.

In addition to the regulatory relief on net worth requirements prescribed by the IC though CL No. 2020-60 issued on May 15, 2020, the IC has provided further guidelines on the implementation of the Amended RBC framework for the calendar year 2020 in order for insurance companies to better utilize their capital requirements while they continue to work on their recovery from the implications of the pandemic. Applying the revised regulatory intervention on the RBC ratio, no regulatory action is needed for the Company as its RBC ratio as at December 31, 2019, before the declaration of the enhanced community quarantine is over 100%.

The Company is compliant with the requirements of the RBC2 framework and will not require capital call from shareholders as at December 31, 2023 and 2022.

The following table shows how the RBC ratio as at December 31 was determined by the Company:

	2023 (Estimated)	2022 (Actual)
Total available capital	3,923,901	3,748,113
RBC requirement	1,128,690	1,032,719
RBC ratio	348%	363%

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

25 Summary of material accounting policies

The material information of the principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

25.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with PFRSs. The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations of Philippine Interpretations Committee ("PIC"), Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC") which have been approved by the Financial and Sustainability Reporting Standards Council (formerly known as the Financial Reporting Standards Council) and adopted by the SEC.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of AFS financial assets and plan assets of the Company's defined benefit plan.

The preparation of financial statements in conformity with PFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 23.

25.2 Changes in accounting policy and disclosures

(a) Amendments to existing standards effective January 1, 2023

- Amendments to PAS 1, 'Presentation of Financial Statements', and PFRS Practice Statement 2

  The amendments require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

  To support this amendment, PFRS Practice Statement 2 Making Materiality Judgements was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

  The adoption of these amendments resulted to changes in the disclosure of accounting policies in Note 25 series.

(b) New standards, and amendments and interpretations to existing standards issued but not yet effective as at December 31, 2023

Certain new standards, and amendments and interpretations to existing standards have been published that are not mandatory for the December 31, 2023 reporting periods and have not been early adopted by the Company. None of these are expected to have an effect on the financial reporting of the Company, except as follows:

- *PFRS 17, 'Insurance Contracts' (effective January 1, 2025)*

  PFRS 17 was issued in May 2017 as replacement for PFRS 4, *"Insurance Contracts".* PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re- measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9, "Financial instruments." An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

  On March 17, 2020, the IASB has decided to further defer the effective date of the standard to annual reporting periods beginning on or after January 1, 2023. Taking into consideration the implications of the pandemic, the IC recognizes that the insurance industry has to realign its priority programs and focus on modifying its business operations under a new normal. The IC sees the need to support the insurance industry and hence, it delays full implementation of the standard to January 1, 2025, two (2) years after IASB's implementation in 2023.

  The Company is in the process of ensuring the operating-readiness for the upcoming standard. However, it is deemed not practicable to reliably quantify its financial effect as at the reporting date.

- *PFRS 9 and its interaction with PFRS 4 'Insurance Contracts'.*

  PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39 with a single model that has three classification categories: amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss (FVTPL). Classification under PFRS 9 is driven by the entity's business model for managing and holding the financial assets and whether the contractual characteristics of the financial assets represent solely payments of principal and interest. Investments in equity instruments are required to be measured at FVTPL with the irrevocable option at inception to present changes in fair value in OCI. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at FVTPL. For such liabilities, changes in fair value arising from changes in the entity's own credit risk are presented separately in OCI.

  The impairment rules of PFRS 9 introduce an 'expected credit loss' model that replaces the 'incurred credit loss' model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39.

  The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges.

In September 2016, ‘Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)’ was issued, which provides optional relief to insurers meeting certain criteria from any adverse impact that may arise from the different effective dates of PFRS 9 and PFRS 17. The two options for entities that issue contracts within the scope of PFRS 4 permit an entity to either:

- reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets; referred to as the ‘overlay approach’, or
- for entities whose predominant activity is issuing contracts within the scope of PFRS 4, defer the application of PFRS 9 entirely; referred to as the ‘deferral approach’.

<u>Deferral of adoption of PFRS 9</u>

The Company has elected to apply the deferral option since it satisfies the following criteria:

- The Company has not previously applied any versions of PFRS 9; and,
- The Company’s activities are predominantly connected with insurance at annual reporting date that immediately precedes April 1, 2016, i.e., December 31, 2015, based on the eligibility assessment that:
    - the carrying amount of liabilities arising from contracts within the scope of PFRS 4 is greater than 90% of the total carrying amount of all its liabilities; or,
    - the carrying amount of liabilities arising from contracts within the scope of PFRS 4 is less than 90% and the total carrying amount of liabilities connected with insurance is equal to or less than 90% but greater than 80% of the total carrying amount of all its liabilities.

The Company’s activities were predominantly connected with insurance activities at December 31, 2015 at which date the percentage of the total carrying amount of the Company’s liabilities connected with insurance activities were more than 91%. There has been no significant change in the Company’s activities subsequent to this date. The Company has determined that it meets the criteria set out in Amendments to PFRS 4 for temporary exemption from applying PFRS 9 on January 1, 2019, and continues to defer the application until the Company adopts PFRS 17.

The following tables set out the fair value at December 31, 2023 and 2022 and changes in fair values for the years then ended, of financial assets separately for the following groups:

- Financial assets that meet the solely payments of principal and interest (SPPI) criteria in PFRS 9, excluding those financial assets that are defined as ‘held-for-trading’ or that are managed and evaluated on a fair value basis; and
- All other financial assets, including those assets that do not meet the SPPI criteria in PFRS 9 and those financial assets that are defined as ‘held-for-trading’ or that are managed and evaluated on a fair value basis.

Financial assets that meet the SPPI criteria in PFRS 9 are those whose cash flows comprise solely payments of principal and interest on principal outstanding.

The fair value of financial instruments at December 31 classified between those that meet and those that fail the SPPI criteria are described as follow:

2023	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
Cash and cash equivalents	1,144,335	-	1,144,335
HTM financial assets	370,390	-	370,390
AFS financial assets	5,213,947	1,023,469	6,237,416
Mortgage loans	1,018	-	1,018
Accounts receivable			
Trade	15,701	-	15,701
Non-trade	42,813	-	42,813
Accrued investment income	36,871	-	36,871
Rental deposits (within Other assets, net)	32,186	-	32,186
	6,857,261	1,023,469	7,880,730

2022	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
Cash and cash equivalents	672,433	-	672,433
HTM financial assets	332,572	-	332,572
AFS financial assets	4,735,325	829,172	5,564,497
Mortgage loans	1,242	-	1,242
Accounts receivable			
Trade	22,925	-	22,925
Non-trade	39,021	-	39,021
Accrued investment income	28,433	-	28,433
Rental deposits (within Other assets, net)	31,848	-	31,848
	5,863,799	829,172	6,692,971

The movements in fair value for the years ended December 31 for these financial assets are as follows:

2023	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
Cash and cash equivalents	-	-	-
HTM financial assets	-	-	-
AFS financial assets	75,692	16,735	92,427
Mortgage loans	-	-	-
Accounts receivable			
Trade	-	-	-
Non-trade	-	-	-
Accrued investment income	-	-	-
	75,692	16,735	92,427

2022	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
Cash and cash equivalents	-	-	-
HTM financial assets	-	-	-
AFS financial assets	(149,760)	(12,897)	(162,657)
Mortgage loans	-	-	-
Accounts receivable			
Trade	-	-	-
Non-trade	-	-	-
Accrued investment income	-	-	-
	(149,760)	(12,897)	(162,657)

For financial assets as at December 31 that meet the SPPI criteria, the current carrying values measured in accordance with PAS 39 are analyzed in the following table by credit rating:

	Neither past due no impaired					
2023	High	Medium	Low	Past due	Impaired	Total
Cash and cash equivalents	1,144,335	-	-	-	-	1,144,335
HTM financial assets	370,390	-	-	-	-	370,390
AFS financial assets	5,213,947	-	-	-	-	5,213,947
Mortgage loans	1,018	-	-	-	-	1,018
Accounts receivable						
Trade	15,400	-	-	301	-	15,701
Non-trade	15,747	-	-	26,312	754	42,813
Accrued investment income	36,871	-	-	-	-	36,871
Refundable deposits	32,186	-	-	-	-	32,186
	6,829,894	-	-	26,613	754	6,857,261

	Neither past due no impaired					
2022	High	Medium	Low	Past due	Impaired	Total
Cash and cash equivalents	672,433	-	-	-	-	672,433
HTM financial assets	332,572	-	-	-	-	332,572
AFS financial assets	4,735,325	-	-	-	-	4,735,325
Mortgage loans	1,242	-	-	-	-	1,242
Accounts receivable						
Trade	20,817	-	-	2,108	-	22,925
Non-trade	15,738	-	-	23,283	-	39,021
Accrued investment income	28,433	-	-	-	-	28,433
Refundable deposits	31,848	-	-	-	-	31,848
	5,838,408	-	-	25,391	-	5,863,799

25.3 Financial assets

25.3.1 Classification

The Company classifies its financial assets in the following categories: (a) loans and receivables, (b) HTM financial assets, and (c) AFS financial assets. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

The Company's loans and receivables comprise of cash and cash equivalents (Note 2), insurance receivable (Note 3), reinsurance recoverable on unpaid losses (Note 4), other receivables (Note 7), accrued investment income (Note 8) and refundable deposits presented under other assets, net (Note 11).

(b) HTM financial assets

HTM investments are classified as such in the statement of financial position (Note 5).

(c) AFS financial assets

AFS financial assets are classified as such in the statement of financial position (Note 6).

25.3.2 Recognition and measurement

Regular-way purchases and sales of HTM and AFS financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognized upon origination when cash is advanced to the borrowers.

Financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition for loans and receivable, HTM financial assets and AFS financial assets.

Loans and receivables and HTM financial assets are subsequently carried at amortized cost using the effective interest rate method.

AFS financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of AFS financial assets are recognized directly in OCI, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in OCI is recognized in profit or loss. Interest on AFS financial assets calculated using the effective interest rate method is recognized in profit or loss as part of interest income. Dividends on AFS equity instruments are recognized in profit or loss as part of dividend income when the Company's right to receive payment is established.

25.3.3 Derecognition

Financial assets are derecognized when the contractual right to receive the cash flows from these assets has ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Company tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

25.3.4 Impairment

Assets classified as AFS

The Company assesses at each reporting date whether there is evidence that a security classified as AFS financial assets is impaired.

For debt securities classified as AFS financial assets, the criteria that the Company uses to determine that there is an objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- it becomes probable that the debtor will enter bankruptcy or other financial reorganization; and
- deterioration in the value of collateral.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. Impairment loss, if any, is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss as a reduction of impairment losses for the year.

For equity investments classified as AFS financial assets, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than twelve (12) months.

The cumulative loss (difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in profit or loss) is removed from OCI and recognized in profit or loss when the asset is determined to be impaired. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. If in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to OCI.

Assets carried at amortized cost (Loans and receivables and HTM financial assets)

The Company assesses at each reporting date whether there is an objective evidence that a financial assetor a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine if there is an objective evidence of impairment include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position; and
- Deterioration in the value of collateral.

The Company first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of loss is measured as the difference between the financial asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset’s original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. If a loan or HTM financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

For purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Company’s grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Loans and receivables are written-off in the year determined to be uncollectible. Loans and receivables are determined to be uncollectible after exerting effort to collect the accounts and upon approval by the Company’s BOD.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in profit or loss.

25.4 Financial liabilities

The Company classifies its financial liabilities as financial liabilities at amortized cost.

Financial liabilities measured at amortized cost include accounts payable, accrued expenses and other liabilities, due to reinsurers and ceding companies, funds held for reinsurers, and reserve for outstanding losses. Financial liabilities exclude retirement benefit liability, payroll liabilities to government agencies and provisions.

Financial liabilities are initially measured at fair value plus transaction costs. It is subsequently measured at amortized cost using the effective interest rate method.

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

25.5 Determination of fair value of financial instruments

The fair values of quoted investments are based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid offer spread or significant increase in the bid-offer spread or there are few recent transactions. For all other financial instruments, fair value is determined using valuation techniques and observable market data.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances, as well as liabilities to customers, is determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

25.6 Investment in associate

Investment in an associate (included in Other assets, net) in the Company's financial statements is accounted for using the cost method. Under this method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated profits of the investee arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment. Investment in an associate is also subject to impairment assessment.

25.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation, amortization, and impairment, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost or residual values over the estimated useful lives of the assets, as follows:

	Useful life
Condominium units	25 years
EDP equipment	3 years
Furniture, fixtures and office equipment	5 years
Leasehold improvements	5 years or lease term, whichever is shorter
Buildings and improvements	Over the lease term
Transportation equipment	5 years

Buildings and improvements pertain to right-of-use assets from leased spaces for the Company's main office and branches

The asset's residual values and useful lives are reviewed, and adjusted as appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

25.8 Software costs

Software costs are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of three years.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

25.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that have definite useful lives such as property and equipment and software cost are subject to depreciation or amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

25.10 Insurance contracts

25.10.1 Recognition and measurement

Short-term insurance contracts of the Company include property and casualty insurance contracts. Output VAT and other taxes collected concurrent with these contracts are excluded from revenue.

For all these contracts, premiums are recognized as revenue (premiums earned) as follows:

Direct business

Gross premiums written are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method. The portion of the gross premiums written that relates to the unexpired periods of the policies at year-end is referred to as reserve for unearned premiums in the liability section of the statement of financial position.

Inward reinsurance business

Gross premiums written are recognized based on the date of notification by the ceding companies (generally one month after the inception date of the underlying risks underwritten) and are earned over the period of cover in accordance with the incidence of risk using the 24th method. The portion of the gross premiums written that relates to the unexpired periods of the policies at year-end is referred to as reserve for unearned premiums in the liability section of the statement of financial position.

Claims and loss adjustment expenses are charged against profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claim costs including those for IBNR are estimated and accrued. The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims using the input of assessment for individual cases reported to the Company.

The method of determining such estimates and establishing reserves is continually reviewed and updated. Changes in estimates of claims costs resulting from the continuous review process and differences between estimates and payments for claims are recognized in profit or loss in the year in which the estimates are changed or payments are made. Estimated recoveries on settled and unsettled claims are evaluated in terms of estimated realizable values of the salvage recoverable and deducted from the liability for unpaid claims. Outstanding claims and IBNR are presented in the liability section of the statement of financial position as part of reserve for outstanding losses.

In accordance with the new valuation standards for the determination of premium liabilities on an aggregate basis, UPR is calculated based on the 24th method on written premiums during the year. Provision is made for the URR where the expected value of claims and expenses attributable to the unexpired period of policies in force at the reporting date exceeds the UPR in relation to such policies. The loss ratio assumptions adopted for estimating the expected claims cost are based on the Company's historical data. At each reporting date, the provision is assessed for adequacy and changes are made to the provision accordingly. Additional provision may be made by management as deemed necessary.

25.10.2 Reinsurance commission

Reinsurance commission is initially deferred upon acceptance of the premium cession by reinsurers and earned in proportion to premium revenue recognized.

25.10.3 Acquisition costs

Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts such as commissions are deferred and charged to expense in proportion to premium revenue recognized.Unamortized acquisition costs are shown in the statement of financial position as DAC.

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

25.10.4 Reserve for outstanding losses; liability adequacy test

Provision is made for full estimated cost of all claims notified, but not settled at the reporting date using the best information available at the time. Provision is also made for the estimated cost of IBNR claims until after the year-end. The primary technique adopted by management in estimating the cost of IBNR is that of using historical claim settlement trends to predict future claims settlement trends.

At each reporting date, prior year's claims estimates are reassessed for adequacy and changes are made to the provision. The principal method used to determine the best estimate of the claim liabilities is the chain ladder method which involve the analysis of historical claims development based on the historical pattern.

Provisions is also made for the MfAD and CHE. A combination of generally accepted actuarial methods including bootstrapping and Mack method is used in the selection of MfAD assumptions. The implied CHE assumption is expressed as proportion of the best estimate of IBNR claims and outstanding claims. Additional provision is also made if the estimates of URR is higher than UPR, consistent with the requirement of the IC.

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing-off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired provision). Any DAC written off as a result of this test cannot be subsequently reinstated.

25.10.5 Reinsurance contracts held

Contracts entered by the Company with reinsurers which compensate the Company for losses on one or more contracts issued and meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are classified as insurance contracts. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of due from reinsurers (classified within insurance balances receivable) and reinsurers' share in insurance liabilities. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense upon recognition of related premiums.

The Company assesses its reinsurance assets for impairment annually. If there is an objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes the impairment loss in profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets. These processes are described in Note 25.3.4.

25.10.6 Receivables and payables related to insurance contracts

Receivables and payables are recognized when the right to receive payment is established or when the obligation becomes due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is an objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets. These processes are described in Note 25.3.4.

25.11 Interest income and expense

Interest income on cash in bank, loans and investments, and interest expense, are recognized in profit or loss for all interest-bearing financial instruments using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. Theeffective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

25.12 Foreign currency transactions and translation

Functional and presentation currency

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

Transactions and balances

Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rate at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency and classified as AFS financial assets are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in OCI.

Translation differences on non-monetary financial instruments, such as equities classified as AFS financial assets, are included in OCI.

25.13 Provisions

Provisions are recognized when all of the following conditions are met: (i) the Company has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. The increase in provision due to the passage of time is recognized as interest expense.

25.14 Income taxes

The tax expense for the period comprises current (including final tax) and DIT. Tax is recognized in profit or loss, except to the extent that that it relates to items recognized in OCI or directly in equity. In this case, the tax is also recognized in OCI or directly in equity, respectively.

Current income tax

Income tax payable is calculated on the basis of the applicable tax law and is recognized as an expense for the year except to the extent that the current tax is related to items (for example, current tax on AFS financial assets) that are charged or credited in OCI or directly to equity.

Interest income from cash in banks and investments are subject to final withholding tax. Such income is presented at its gross amounts and the tax paid or withheld is included in Provision for income tax.

DIT

DIT is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The DIT is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. DIT is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related DIT asset is realized or the DIT liability is settled.

DIT assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. DIT liabilities are recognized in full for all taxable temporary differences.

DIT assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the DIT assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

The Company reassesses at each reporting date the need to recognize a previously unrecognized DIT asset.

DIT expense or credit included in Provision for income tax is recognized for the changes during the year in the DIT assets and liabilities.

25.15 Employee benefits

Retirement benefits

The Company has a trustee-administered, non-contributory defined benefit plan covering all qualified officers and employees. A defined benefit plan is a pension plan that defines an amount of retirement that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The retirement benefit asset or liability recognized in the statement of financial position in respect of a defined benefit retirement plan is the present value of the retirement benefit obligation at the end of each reporting period less the fair value of plan assets. The retirement benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in Philippine peso and that have terms to maturity which approximate the terms of the related pension liability. The fair value of plan assets is based on the valuation of the retirement fund assets at the reporting dates.

Where the calculation results in a benefit to the Company, the recognized asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in OCI in the year in which they arise.

Profit-sharing and bonus plans

The Company recognizes a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based compensation

The Company's management awards high-performing employees with bonuses in the form of options to purchase BPI's common shares, from time to time, on a discretionary basis. The options are subject to certain service vesting condition, and their fair value is recognized as an employee benefits expense with a corresponding increase in reserves over the vesting period.

25.16 Leases (Company as a lessee)

The Company recognizes lease as a right-of-use asset and a corresponding liability at the date at which the leased 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 lease commencement date plus any initialdirect costs incurred, less any lease incentives received.

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 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. 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 as appropriate, 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.

26 Supplementary information required by the Bureau of Internal Revenue ("BIR")

Below is the additional information required by Revenue Regulations No. 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(a) Output value-added tax ("VAT")

Output VAT declared for the year ended December 31, 2023 consists of:

	Gross amount of revenues	Output VAT
Non-life premiums		
Subject to 12% VAT	6,140,062	736,807
Zero-rated	844,547	-
	6,984,609	736,807

Zero-rated premiums pertain to non-life premiums from PEZA-registered entities pursuant to BIR Revenue Regulations No. 16-2005, as amended. Gross premiums above are based on actual collection of premiums, net of returns, for tax purposes.

(b) Input VAT

Details of input VAT for the year ended December 31, 2023 and their movements during the year follow:

	Amount
Beginning balance	14,567
Add: Current year's domestic purchases/payments for:	
Services	16,982
Commission	8,639
Reinsurance	559
Goods other than for resale	1,033
Capital goods subject to amortization	335
Claims	8
Ending balance	42,123

Input VAT is netted against output VAT. Output VAT payable is reported as part of taxes payable under Accounts payable, accrued expenses and other liabilities in the statement of financial position.

(c) Documentary stamp taxes

Documentary stamp taxes paid and accrued for the year ended December 31, 2023 consist of:

	Paid	Accrued	Total
Non-life insurance policies/lease agreements	680,500	82,239	762,739

Documentary stamp taxes above include taxes which were passed on to the policyholders

(d) All other local and national taxes

All other local and national taxes paid and accrued for the year ended December 31, 2023 consist of:

	Paid	Accrued	Total
Local government taxes	19,088	19,340	38,428
Premium tax (Non-life insurance)	3,124	483	3,607
Municipal taxes	2,120	-	2,120
Real property tax	993	-	993
Mayor's permit	58	-	58
Community tax	35	-	35
Others	5,021	-	5,021
	30,439	19,823	50,262

The above local and national taxes are lodged under Taxes and licenses in General and administrative expenses in the statement of income, except for local government taxes and premium taxes which are passed on to policyholders.

Accrued local and national taxes is reported as part of taxes payable under Accounts payable, accrued expenses and other liabilities in the statement of financial position.

(e) Withholding taxes

Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2023 consist of:

	Paid	Accrued	Total
Expanded withholding tax	99,956	15,474	115,430
Withholding tax on compensation	36,130	4,667	40,797
Final withholding tax	30,067	947	31,014
Fringe benefit tax	5,400	1,842	7,242
VAT withholding	821	93	914
	172,374	23,023	195,397

Accrued withholding taxes are reported as part of taxes payable under Accounts payable, accrued expenses and other liabilities in the statement of financial position.

(f) Tax assessments/ tax cases

The Company has no outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR as at and for the year ended December 31, 2023.

(g) Others

The Company is not subject to any other taxes other than those described above.