

FPG Insurance Co., Inc.

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
FPG Insurance Co., Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of FPG Insurance Co., Inc. (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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 Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 31 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of FPG Insurance Co., Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Bernalette L. Ramos

Partner

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June 16, 2016, valid until June 16, 2019

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May 12, 2015, valid until May 11, 2018

PTR No. 6621314, January 9, 2018, Makati City

March 16, 2018



FPG INSURANCE CO., INC.
STATEMENTS OF FINANCIAL POSITION

| | December 31 | | January 1 |
|--|-----------------------|-----------------------------------|-----------------------------------|
| | 2017 | 2016 (As restated - Note 2) | 2016 (As restated - Note 2) |
| ASSETS | | | |
| Cash and Cash Equivalents (Notes 4 and 26) | ₱826,660,504 | ₱942,755,971 | ₱591,135,711 |
| Short-term Investments (Notes 4 and 26) | 1,326,311 | 1,306,567 | 1,295,042 |
| Insurance Receivables - net (Notes 5, 26 and 27) | 1,455,814,077 | 1,382,855,051 | 1,253,181,998 |
| Financial Assets (Notes 6 and 26) | | | |
| Available-for-sale financial assets | 1,695,682,839 | 1,389,963,937 | 1,531,948,982 |
| Loans and receivables - net | 148,601,027 | 137,700,472 | 52,796,746 |
| Reinsurance Assets (Notes 7, 13 and 26) | 1,374,056,192 | 847,698,382 | 1,661,708,167 |
| Accrued Income (Notes 8 and 26) | 11,318,198 | 9,839,885 | 12,330,277 |
| Deferred Acquisition Costs (Note 9) | 303,531,430 | 235,458,824 | 239,921,708 |
| Investment Properties - net (Note 10) | 2,745 | 2,745 | 2,647,947 |
| Property and Equipment - net (Note 11) | 71,827,067 | 45,167,041 | 46,794,962 |
| Deferred Tax Assets - net (Note 25) | 20,737,490 | 25,819,076 | 19,855,631 |
| Net Pension Asset (Note 24) | 16,745,551 | - | - |
| Other Assets (Notes 12 and 26) | 256,348,991 | 245,792,899 | 220,808,632 |
| | ₱6,182,652,422 | ₱5,264,360,850 | ₱5,634,425,803 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Insurance contract liabilities (Notes 13, 14 and 26) | ₱3,228,445,463 | ₱2,545,712,959 | ₱3,100,506,446 |
| Insurance payables (Notes 15, 26 and 27) | 1,079,131,727 | 1,050,600,053 | 811,584,749 |
| Accounts payable and accrued expenses (Notes 16 and 26) | 640,896,342 | 524,832,452 | 602,324,323 |
| Deferred reinsurance commissions (Note 9) | 62,083,222 | 59,768,426 | 81,939,042 |
| Net pension liability (Note 24) | - | 21,254,885 | 27,655,187 |
| | 5,010,556,754 | 4,202,168,775 | 4,624,009,747 |
| Equity | | | |
| Capital stock (Note 18) | 350,000,000 | 350,000,000 | 350,000,000 |
| Reserve for fluctuation on available-for-sale financial assets (Note 6) | 68,946,012 | 98,801,844 | 142,128,800 |
| Remeasurement losses on defined benefit obligation (Note 24) | (476,784) | (14,635,902) | (8,049,353) |
| Retained earnings (Note 18): | | | |
| Unappropriated | 741,121,325 | 615,521,018 | 513,831,494 |
| Appropriated | 12,505,115 | 12,505,115 | 12,505,115 |
| | 1,172,095,668 | 1,062,192,075 | 1,010,416,056 |
| | ₱6,182,652,422 | ₱5,264,360,850 | ₱5,634,425,803 |

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.
STATEMENTS OF INCOME

| | Years Ended December 31 | |
|---|--------------------------------|-----------------------------------|
| | 2017 | 2016 (As restated - Note 2) |
| Gross earned premiums on insurance contracts (Notes 13, 19 and 27) | ₱4,590,905,281 | ₱3,994,799,800 |
| Reinsurers' share of gross earned premiums on insurance contracts (Notes 13, 19 and 27) | 2,249,431,008 | 2,014,265,893 |
| Net insurance earned premiums | 2,341,474,273 | 1,980,533,907 |
| Commission income (Note 9) | 191,679,219 | 195,056,313 |
| Gain on sale of investment properties (Note 10) | – | 144,029,779 |
| Gain on sale of available-for-sale financial assets (Note 6) | 74,374,957 | 53,267,588 |
| Investment income (Note 20) | 87,495,277 | 78,861,654 |
| Foreign exchange gain - net | – | 10,380,418 |
| Miscellaneous income | 78,671 | 351,250 |
| Other income | 353,628,124 | 481,947,002 |
| Total Income | 2,695,102,397 | 2,462,480,909 |
| Gross insurance contract benefits and claims paid (Notes 13 and 21) | 1,506,671,109 | 1,439,971,673 |
| Reinsurers' share of gross insurance contract benefits and claims paid (Notes 13 and 21) | (324,449,575) | (473,920,920) |
| Gross change in insurance contract liabilities (Note 21) | 603,531,098 | (689,676,660) |
| Reinsurers' share of gross change in insurance contract liabilities (Notes 13 and 21) | (561,372,916) | 765,084,119 |
| Net insurance benefits and claims | 1,224,379,716 | 1,041,458,212 |
| Expenses | | |
| Commission expense (Note 9) | 687,290,574 | 593,532,888 |
| Operating expenses (Note 22) | 593,253,481 | 583,349,410 |
| Foreign exchange loss | 20,022,746 | – |
| Provision for impairment losses on AFS financial assets (Note 6) | 19,399,552 | 11,905,678 |
| Interest expense (Note 15) | 963,460 | 857,669 |
| Other expenses | 1,320,929,813 | 1,189,645,645 |
| Total Benefits, Claims and Other Expenses | 2,545,309,529 | 2,231,103,857 |
| Income before income tax | 149,792,868 | 231,377,052 |
| Current (Note 25) | 25,179,168 | 33,384,290 |
| Deferred (Note 25) | (986,607) | (3,696,762) |
| Income tax expense (Note 25) | 24,192,561 | 29,687,528 |
| NET INCOME (Note 29) | ₱125,600,307 | ₱201,689,524 |

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.
STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|--------------------------------|-----------------------------------|
| | 2017 | 2016 (As restated - Note 2) |
| NET INCOME | ₱125,600,307 | ₱201,689,524 |
| OTHER COMPREHENSIVE LOSS | | |
| <i>Items that will be reclassified to profit or loss in subsequent periods:</i> | | |
| Unrealized fair value gain (loss) | 25,119,573 | (1,965,046) |
| Transfers to profit and loss (Note 6) | (54,975,405) | (41,361,910) |
| | (29,855,832) | (43,326,956) |
| <i>Items that will not be reclassified to profit or loss in subsequent periods:</i> | | |
| Remeasurement losses on defined benefit obligation (Note 24) | 20,227,312 | (9,409,356) |
| Tax effect | (6,068,194) | 2,822,807 |
| | 14,159,118 | (6,586,549) |
| Total other comprehensive loss | (15,696,714) | (49,913,505) |
| TOTAL COMPREHENSIVE INCOME | ₱109,903,593 | ₱151,776,019 |

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

| | Capital Stock (Note 18) | Revaluation Reserve on Available-for-Sale Financial Assets (Note 6) | Remeasurement gains (losses) on Defined benefit obligation (Note 24) | Retained Earnings (Note 18) | | Total |
|---|-------------------------------|---|--|-----------------------------|--------------------|-----------------------|
| | | | | Unappropriated | Appropriated | |
| As of January 1, 2017 | | | | | | |
| As previously reported | ₱350,000,000 | ₱98,801,844 | (₱14,635,902) | ₱672,674,400 | ₱12,505,115 | ₱1,119,345,457 |
| Change in accounting policy (Note 2) | – | – | – | (57,153,382) | – | (57,153,382) |
| As restated | 350,000,000 | 98,801,844 | (14,635,902) | 615,521,018 | 12,505,115 | 1,062,192,075 |
| Net income for the year | – | – | – | 125,600,307 | – | 125,600,307 |
| Other comprehensive loss | – | (29,855,832) | 14,159,118 | – | – | (15,696,714) |
| Total comprehensive loss for the year | – | (29,855,832) | 14,159,118 | 125,600,307 | – | 109,903,593 |
| As of December 31, 2017 | ₱350,000,000 | ₱68,946,012 | (₱476,784) | ₱741,121,325 | ₱12,505,115 | ₱1,172,095,668 |
| As of January 1, 2016 | | | | | | |
| As previously reported | ₱350,000,000 | ₱142,128,800 | (₱8,049,353) | ₱558,350,992 | ₱12,505,115 | ₱1,054,935,554 |
| Change in accounting policy (Note 2) | – | – | – | (44,519,498) | – | (44,519,498) |
| As restated | 350,000,000 | 142,128,800 | (8,049,353) | 513,831,494 | 12,505,115 | 1,010,416,056 |
| Net income for the year | – | – | – | 201,689,524 | – | 201,689,524 |
| Other comprehensive loss | – | (43,326,956) | (6,586,549) | – | – | (49,913,505) |
| Total comprehensive income (loss) for the year | – | (43,326,956) | (6,586,549) | 201,689,524 | – | 151,776,019 |
| Cash dividends (Note 18) | – | – | – | (100,000,000) | – | (100,000,000) |
| As of December 31, 2016 (as restated) | ₱350,000,000 | ₱98,801,844 | (₱14,635,902) | ₱615,521,018 | ₱12,505,115 | ₱1,062,192,075 |

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.
STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|--|--------------------------------|-----------------------------------|
| | 2017 | 2016 (As restated – Note 2) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | ₱149,792,868 | ₱231,377,052 |
| Adjustments for: | | |
| Depreciation and amortization (Notes 11 and 22) | 30,934,218 | 26,171,170 |
| Provision for Impairment loss on AFS financial assets (Note 6) | 19,399,552 | 11,905,678 |
| Dividend income (Note 20) | (7,779,024) | (7,548,511) |
| Gain on sale of: | | |
| Available-for-sale financial assets (Note 6) | (74,374,957) | (53,267,588) |
| Property and equipment (Note 11) | (78,671) | (351,250) |
| Investment properties (Note 10) | – | (144,029,779) |
| Interest income (Note 20) | (79,716,253) | (71,313,143) |
| Interest expense (Notes 15 and 17) | 963,460 | 857,669 |
| Operating income before working capital changes | 39,141,193 | (6,198,702) |
| Changes in operating assets and liabilities | | |
| Decrease (increase) in: | | |
| Insurance receivables | (72,959,026) | (129,673,053) |
| Short-term investments | (19,744) | (11,525) |
| Loans and receivables | (10,900,555) | (84,903,726) |
| Reinsurance assets | (526,357,810) | 814,009,785 |
| Deferred acquisition costs | (68,072,606) | 4,462,884 |
| Pension asset | (16,745,551) | – |
| Increase (decrease) in: | | |
| Insurance contract liabilities | 682,732,503 | (554,793,487) |
| Insurance payables | 28,531,674 | 239,015,304 |
| Deferred reinsurance commissions | 2,314,796 | (22,170,616) |
| Accounts payable and accrued expenses | 116,063,890 | (77,491,871) |
| Pension obligation | | |
| Retirement expense | 30,672,595 | 11,845,529 |
| Contribution | (31,700,168) | (27,655,187) |
| Net cash generated from operations | 172,701,191 | 166,435,335 |
| Interest paid | (963,460) | (857,669) |
| Income tax paid | (25,179,168) | (33,384,290) |
| Net cash provided by operating activities | 146,558,563 | 132,193,376 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of: | | |
| Available-for-sale financial assets (Note 6) | 630,809,807 | 594,484,761 |
| Property and equipment (Note 11) | 731,174 | 389,286 |
| Investment property (Note 10) | – | 146,674,981 |
| Interest received | 80,006,040 | 75,403,335 |
| Dividends received (Note 20) | 7,779,024 | 7,548,511 |
| Acquisitions of: | | |
| Available-for-sale financial assets (Note 6) | (913,177,236) | (456,064,562) |
| Property and equipment (Note 11) | (58,246,747) | (24,581,285) |
| Other assets | (10,556,092) | (24,428,143) |
| Net cash provided by investing activities | (262,654,030) | 319,426,884 |

(Forward)



| | Years Ended December 31 | |
|---|--------------------------------|--|
| | 2017 | 2016 (As restated - Note 2) |
| CASH FLOWS FROM FINANCING ACTIVITY | | |
| Dividends paid | ₱- | (₱100,000,000) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (116,095,467) | 351,620,260 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 942,755,971 | 591,135,711 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4) | ₱826,660,504 | ₱942,755,971 |

See accompanying Notes to Financial Statements.



FPG INSURANCE CO., INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

FPG Insurance Co., Inc. (the Company) is a nonlife insurance company incorporated in the Philippines in 1958. The Company offers insurance coverages for fire and allied perils, motor, casualty, marine, medical, personal accident and engineering. The Company has eleven (11) branches located in Angeles, Dagupan, Alabang, Binondo, Davao, Cagayan de Oro, Batangas, Quezon City, Cebu, Ortigas and Makati Business Lounge.

In a special Board of Directors' (BOD) meeting on November 12, 2007, it was approved that the Articles of Incorporation will be amended to extend the existence of the Company to another fifty years from its original expiry date. The Philippine Securities and Exchange Commission (SEC) approved the Amended Articles of Incorporation on January 29, 2008.

In a special BOD meeting on November 19, 2014, it was approved that the Articles of Incorporation and By-laws will be amended to change the Company's name from Federal Phoenix Assurance Co., Inc. to FPG Insurance Co., Inc. On January 5, 2015 and February 3, 2015, the amendment of Articles of Incorporation and By-laws was approved by the Insurance Commission (IC) and SEC, respectively.

The Company's equity is being held by Golden Eight Group Limited (100%), a holding company incorporated in the British Virgin Islands.

The accompanying financial statements were authorized for issue by the BOD on March 16, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value.

The financial statements are presented in Philippine Pesos (PHP or ₱), which is also the Company's functional currency. All amounts are rounded off to the nearest peso, unless otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.



- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The Company does not anticipate that the application of the amendments in the future will have any impact on the Company's financial statements as the Company is neither a first time adopter of IFRS nor a venture capital organization. Furthermore, the Company does not have any associate or joint venture that is an investment entity.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The amendments will not have an impact on the Company's financial statements as the Company does not enter in any debt financing.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The amendments will not have an impact on the Company's financial statements as the Company already assess the sufficiency of future taxable profits in a way that is consistent with these amendments.

- Circular Letter 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves*

The circular prescribes the new valuation methodology for the non-life insurance companies. Non-life insurance companies will be changing the basis of valuation of their non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The incurred but not reported (IBNR) reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method.

A margin for adverse deviation is estimated based on standard projection techniques or combination of such techniques, such as but not limited to the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the Policy Liabilities at the 75th percentile level of sufficiency. Discount rates to be used shall be current risk-free rates. The rates shall exactly match the duration of the policy and the currency of the cash flows and shall be prescribed by the Insurance Commission.



The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows:

| <i>Statements of Financial Position</i> | As at December 31, 2016 | | |
|---|-------------------------|--------------------|-----------------|
| | As previously reported | Effect of adoption | As restated |
| Increase (decrease) in: | | | |
| Reinsurance assets | ₱788,912,159 | ₱58,786,223 | ₱847,698,382 |
| Insurance contract liabilities | (2,429,773,354) | (115,939,605) | (2,545,712,959) |
| Retained earnings | (685,179,515) | 57,153,382 | 628,026,133 |

| <i>Statements of Comprehensive Income</i> | Year ended December 31, 2016 | | |
|---|------------------------------|--------------|---------------|
| | Increase (decrease) in: | | |
| Gross change in insurance contract liabilities | (596,669,302) | (93,007,358) | (689,676,660) |
| Reinsurance share of gross earned premiums on insurance contracts | 659,442,877 | 105,641,242 | 765,084,119 |

| <i>Statements of Financial Position</i> | As at January 1, 2016 | | |
|---|------------------------|--------------------|-----------------|
| | As previously reported | Effect of adoption | As restated |
| Increase (decrease) in: | | | |
| Reinsurance assets | 1,497,280,702 | 164,427,465 | 1,661,708,167 |
| Insurance contract liabilities | (2,891,559,483) | (208,946,963) | (3,100,506,446) |
| Retained earnings | (570,856,107) | 44,519,498 | (526,336,609) |

Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.



The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's amount of credit losses. The Company is currently assessing the impact of adopting this standard.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the application of the forthcoming insurance contracts standard on January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The Company is assessing which approach it will use and the potential impact of the chosen approach in its financial statements.

- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.



Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Use of Estimates, Assumptions and Judgments

The preparation of the financial statements necessitates the use of estimates, assumptions and judgments. These estimates and assumptions affect the reported amounts of assets and liabilities and contingent liabilities at the end of the reporting period as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge and judgment of current facts as at the reporting date, the actual outcome may differ from these estimates, possibly significantly. For further information on critical estimates and judgments, refer to Note 3.

Foreign Currency Transactions and Translations

The functional and presentation currency of the Company is PHP. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are taken to the statement of income, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income.

Product Classification

Insurance contracts are defined as those contracts under which the Company (the insurer) accepts significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Company defines significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

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

Fair value measurement

The Company measures financial instruments at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment property carried at cost are disclosed in Note 26.



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

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

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Short-term Investments

Short-term investments are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of more than three months but less than one year from dates of placement. These earn interests at the respective short-term investment rates.

Insurance Receivables

Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost, using the effective interest rate



method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Insurance receivables are derecognized following the derecognition criteria of financial assets.

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. Financial assets can be classified in any of the following categories: held-to-maturity (HTM) investments, financial assets at FVPL, AFS investments, and loans and receivables. Financial liabilities can be classified as at FVPL or as other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

As of December 31, 2017 and 2016, the Company's financial instruments are in the nature of AFS financial assets, loans and receivables and other financial liabilities.

Day 1 difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where an unobservable data is used, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets or financial liabilities at FVPL

This category consists of financial assets or financial liabilities that are held for trading or designated by management as at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or



- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in the statement of income, included under the fair value gains account. Interest earned or incurred is recorded as interest income or interest expense, respectively, while dividend income is recorded when the right to receive the payment has been established.

In 2017 and 2016, the Company has not classified any of its financial assets or financial liabilities as at FVPL.

HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

In 2017 and 2016, the Company has not classified any of its financial assets as HTM investments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVPL. This accounting policy relates to the statement of financial position captions: (a) "Cash and cash equivalents", (b) "Short-term investments", (c) "Insurance receivables", which arise primarily from premiums due from policyholders, agents and brokers, ceding companies and reinsurers; (d) "Loans and receivables" and (e) "Accrued income".

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in interest income under the 'Investment income' account in the statement of income. The losses arising from impairment of such loans and receivables are recognized in the statement of income.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated as financial assets at FVPL, HTM, or loans and receivables.

Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets include government securities, equity investments and other debt instruments.



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

When the fair value of AFS investments cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral parts of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

This accounting policy applies primarily to the Company's insurance payables, accounts payable and accrued expenses and dividends payable that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable).

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it has a contractual obligation to:

- deliver cash or another financial asset to another entity or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.

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

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.



Impairment of Financial Assets

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for 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 for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as type of borrower, collateral type, past-due status and term.

AFS investments carried at fair value

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



In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Investment income" in the statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

AFS investments carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Reinsurance Assets

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

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

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

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

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognized when the contractual right are extinguished or expired or when the contract is transferred to another party.

When the Company enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Company initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as Insurance payables in the liabilities section of the company statement of financial position will be withheld and recognized as Funds held for reinsurers and included as part of the Insurance payables in the liabilities section of the company statement of financial position. The amount withheld is generally released after a year. Funds held by ceding companies are accounted for in the same manner.



Deferred Acquisition Costs (DAC)

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred.

Subsequent to initial recognition, these costs are amortized using the 24th method except for the marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged against the statement of income. The unamortized acquisition costs are shown as deferred acquisition costs in the Assets section of the statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged against the statement of income. The deferred acquisition cost is also considered in the liability adequacy test for each end of the reporting period.

Investment Property

Land held for long term rental yields and/or for capital appreciation is classified as investment property.

In the same way, land held for currently undetermined future use is an investment property.

Investment property is carried at cost net of any impairment in value.

Investment property is derecognized when it has either been disposed of or the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses from derecognition of an investment property are recognized in the statement of income in the year of derecognition.

Transfers are made to investment property when there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. 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 expenses are charged to the statement of income during the financial period in which they are incurred.



Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the related assets as follows:

| | Years |
|--|-------|
| Computer equipment | 3 |
| Leasehold improvements | 3 |
| Transportation equipment | 5 |
| Office furniture, fixtures and equipment | 3 |

Leasehold improvements are amortized over the estimated useful life of the improvement or the term of the lease, whichever is shorter.

The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income in the year the item is derecognized.

Impairment of Non-financial Assets

The Company assesses at each end of the reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

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



Creditable Withholding Taxes (CWTs)

Creditable withholding pertains to the tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under “Other assets” account. At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company. If these CWTs are claimed as a refund, these will be recorded as a receivable under “Loans and receivables” account.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of these CWTs.

Value-added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of sales tax except:

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

The net amount of tax recoverable from, or payable to, the tax authority is included as part of “Other assets” or “Accounts payable and accrued expenses” in the statement of financial position.

Insurance Contract Liabilities

Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Provision for Unearned Premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as provision for unearned premiums as part of insurance contract liabilities and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Provision for Claims Reported and Incurred But Not Reported (IBNR) Losses

Provision for claims reported and IBNR losses are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. The IBNR shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, the expected loss ratio approach, the Bornhuetter - Ferguson method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision.



Liability Adequacy Test

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities. Any inadequacy is immediately charged against the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Pension Cost

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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



Equity

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to additional paid-in capital account. Share issuance costs incurred as necessary part of completing an equity transaction are accounted for as part of that transaction and are treated as a deduction from additional paid-in capital from previous share issuance. If the additional paid-in capital account is not sufficient, the excess is deducted from retained earnings.

Additional paid-in capital includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Retained earnings include all the accumulated earnings of the Company, less any amount of dividends declared.

Revenue Recognition

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

Premiums Revenue

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at the end of the reporting period is accounted for as provision for unearned premiums and presented as part of insurance contract liabilities in the liabilities section of the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums shown as part of reinsurance assets presented in the assets section of the statement of financial position. The net changes in these accounts between reporting dates are included in the determination of net insurance revenue.

Reinsurance Commissions

Commissions earned from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as deferred reinsurance commissions and presented in the liabilities section of the statement of financial position.

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS investments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The



adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income.

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

Dividend income

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

Benefits and Claims

Benefits and claims consist of benefits and claims paid to policyholders, which includes changes in the valuation of Insurance contract liabilities, including IBNR. The IBNR shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, the expected loss ratio approach, the Bornhuetter - Ferguson method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision.

Expenses

Operating expenses and interest expense, except for lease agreements, are recognized as expense as they are incurred.

Leases

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

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

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

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.



Income Tax

Current Tax

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

Deferred Tax

Deferred tax is provided, using the liability method, on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period. Current tax and deferred tax relating to items recognized as other comprehensive income is also recognized in the statement of other comprehensive income.

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.



Contingencies

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

Events After the Reporting Period

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

3. **Significant Accounting Estimates and Judgments**

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

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

Judgments

Product classification

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

The Company has determined that the insurance policies it issues have significant insurance risks and therefore meet the definition of insurance contracts and should be accounted for as such.

Operating Lease Commitments - Company as Lessee

The Company has entered into property leases. Substantially, all the risks and benefits incidental to ownership of the leased item are not transferred to the Company. The future minimum rental payable under non-cancellable operating lease amounted to ₱171,933,986 (see Note 28).

Distinction between investment properties and owner-occupied properties

The Company determines whether a property qualifies as investment property. In making this judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in providing services.

When properties comprise a portion that is held to earn rentals or for capital appreciation and another portion is held for use in the production or supply of goods or services or for administrative purpose, and these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making this judgment.



Estimates

Claims Liability Arising from Insurance Contracts

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision. The IBNR provision of the Company has been calculated using standard actuarial projection techniques using past development patterns to determine the expected future development and project the claim amounts for each accident year to its ultimate value. A number of different valuation methodologies have been adopted, each with their own strengths and blended them together which include: (a) paid chain ladder method (with and without Bornhuetter-Ferguson (BF) adjustments); (b) reported chain ladder method (with and without BF adjustments); and (c) expected loss ratio method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision.

The main assumptions underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. Historical claims development is mainly analyzed by accident years, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

The carrying values of provision for outstanding claims and IBNR amounted to ₱1,314,043,354 and ₱826,451,861 as of December 31, 2017 and 2016, respectively (see Note 13).

Fair Values of Financial Assets

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. Fair value determinations for financial assets and liabilities are based generally on listed or quoted market prices. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value of these financial assets and liabilities would affect profit or loss and equity.

The carrying value of AFS financial assets amounted to ₱1,695,682,839 and ₱1,389,963,937 as of December 31, 2017 and 2016, respectively (see Note 6).

Impairment of Financial Assets

The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more or 'prolonged' as continuous decline for more than six (6) months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate also when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, changes in technology and operational and financing cash flows.



The Company reviews its insurance receivables and loans and receivables at each end of the reporting period to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Insurance receivables, net of allowance for doubtful accounts amounted to ₱1,455,814,077 and ₱1,382,855,051 as of December 31, 2017 and 2016, respectively (see Note 5).

Loans and receivables amounted to ₱148,601,027 and ₱137,700,472 as of December 31, 2017 and 2016, respectively (see Note 6).

The Company has recognized impairment loss on its AFS financial assets amounting to ₱19,399,552 in 2017 and ₱11,905,678 in 2016 (see Note 6).

Estimated Useful Lives of Property and Equipment

The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

The carrying value of property and equipment amounted to ₱71,827,067 and ₱45,167,041 as of December 31, 2017 and 2016, respectively (see Note 11).

Impairment of Non-financial Assets

The Company assesses impairment on investment properties and property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Company considers important which could trigger an impairment review include the following:

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



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

As of December 31, 2017 and 2016, investment properties and property and equipment amounted to ₱71,829,812 and ₱45,169,786, respectively (see Notes 10 and 11).

Pension Benefits

The determination of pension obligation and other employee benefits 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.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of each end of the reporting period. Refer to Note 24 for the details of assumptions used in the calculation. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately as other comprehensive income in the statement of comprehensive. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

The Company's net pension asset amounted to ₱16,745,551 as of December 31, 2017 and net pension obligation of ₱21,254,885 as of December 31, 2016 (see Note 24).

Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position. It is possible, however, that the results of operations could be materially affected by changes in the estimates.

4. **Cash and Cash Equivalents and Short-term Investments**

Cash and Cash Equivalents

This account consists of:

| | 2017 | 2016 |
|------------------|---------------------|--------------|
| Cash on hand | ₱166,800 | ₱161,300 |
| Cash in banks | 206,064,667 | 280,566,093 |
| Cash equivalents | 620,429,037 | 662,028,578 |
| | ₱826,660,504 | ₱942,755,971 |

Cash in banks earns interest at the respective bank's deposit rates. Cash equivalents are made for varying periods of up to three months or less depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates.

Short-term investments

Short-term investments pertain to time deposits with terms of more than 90 days but less than 360 days and earn interest at the respective short-term investment rates.



As of December 31, 2017 and 2016, short-term investments amounted to ₱1,326,311 and ₱1,306,567, respectively.

Interest income earned from cash and cash equivalents and short-term investments amounted to ₱11,234,265 and ₱5,669,201 in 2017 and 2016, respectively (see Note 20).

5. Insurance Receivables

This account consists of:

| | 2017 | 2016 |
|--|-----------------------|-----------------------|
| Due from: | | |
| Brokers and agents | ₱1,271,840,526 | ₱1,217,373,562 |
| Ceding companies and reinsurers | 60,875,026 | 29,900,881 |
| Reinsurance recoverable on paid losses | 136,035,842 | 146,835,561 |
| | 1,468,751,394 | 1,394,110,004 |
| Less: Allowance for doubtful accounts | 12,937,317 | 11,254,953 |
| | ₱1,455,814,077 | ₱1,382,855,051 |

All insurance receivables are due within one year or less.

The following table shows aging information of insurance receivables balances:

December 31, 2017

| | 1 to 90 days | 91 to 120 days | 121 to 150 days | 151 to 210 days | > 210 days | Total |
|--|-----------------------|--------------------|--------------------|--------------------|---------------------|-----------------------|
| Due from brokers and agents | ₱1,196,713,718 | ₱31,781,621 | ₱3,205,920 | ₱6,512,394 | ₱33,626,873 | ₱1,271,840,526 |
| Due from ceding companies and reinsurers | 20,513,665 | 3,572,292 | 11,593,558 | 11,141,696 | 14,053,815 | 60,875,026 |
| Reinsurance recoverable on paid losses | 35,595,911 | 846,600 | 29,950,111 | 10,104,101 | 59,539,119 | 136,035,842 |
| | ₱1,252,823,294 | ₱36,200,513 | ₱44,749,589 | ₱27,758,191 | ₱107,219,807 | ₱1,468,751,394 |

December 31, 2016

| | 1 to 90 days | 91 to 120 days | 121 to 150 days | 151 to 210 days | > 210 days | Total |
|--|-----------------------|--------------------|--------------------|--------------------|--------------------|-----------------------|
| Due from brokers and agents | ₱1,141,300,727 | ₱18,839,489 | ₱21,090,105 | ₱17,811,278 | ₱18,331,963 | ₱1,217,373,562 |
| Due from ceding companies and reinsurers | 16,377,409 | 2,308,456 | 3,889,596 | 4,083,900 | 3,241,520 | 29,900,881 |
| Reinsurance recoverable on paid losses | 69,036,214 | 3,580,465 | 11,473,722 | 3,386,944 | 59,358,216 | 146,835,561 |
| | ₱1,226,714,350 | ₱24,728,410 | ₱36,453,423 | ₱25,282,122 | ₱80,931,699 | ₱1,394,110,004 |

As of December 31, 2017 and 2016, allowance for doubtful accounts for insurance receivables determined on an individual basis follows:

| | 2017 | | | |
|------------------------------|-----------------------------|--|--|--------------------|
| | Due from brokers and agents | Due from ceding companies and reinsurers | Reinsurance recoverable on paid losses | Total |
| Balance at beginning of year | ₱7,989,101 | ₱- | ₱3,265,852 | ₱11,254,953 |
| Provision (reversals) | (713,106) | - | 2,395,470 | 1,682,364 |
| Balance at end of year | ₱7,275,995 | ₱- | ₱5,661,322 | ₱12,937,317 |
| Individually impaired | ₱7,275,995 | ₱- | ₱5,661,322 | ₱12,937,317 |



| | 2016 | | | |
|------------------------------|-----------------------------------|--|--|-------------|
| | Due from brokers and agents | Due from ceding companies and reinsurers | Reinsurance recoverable on paid losses | Total |
| Balance at beginning of year | ₱4,193,221 | ₱- | ₱7,061,732 | ₱11,254,953 |
| Provision (reversals) | 3,795,880 | - | (3,795,880) | - |
| Balance at end of year | ₱7,989,101 | ₱- | ₱3,265,852 | ₱11,254,953 |
| Individually impaired | ₱7,989,101 | ₱- | ₱3,265,852 | ₱11,254,953 |

6. Financial Assets

The Company's financial assets are summarized by measurement categories as follows:

| | 2017 | 2016 |
|-----------------------------|-----------------------|----------------|
| AFS financial assets | ₱1,695,682,839 | ₱1,389,963,937 |
| Loans and receivables – net | 148,601,027 | 137,700,472 |
| | ₱1,844,283,866 | ₱1,527,664,409 |

The assets included in each of the categories above are detailed as follows:

a) AFS financial assets

| | 2017 | 2016 |
|---|-----------------------|----------------|
| Quoted securities - at fair value: | | |
| Government debt securities: | | |
| Local currency | ₱1,197,349,469 | ₱1,054,805,725 |
| Listed equity securities: | | |
| Common shares | 431,103,370 | 320,118,212 |
| Club shares | 18,400,000 | 15,020,000 |
| Unit Investment Fund | 48,810,000 | - |
| | 1,695,662,839 | 1,389,943,937 |
| Non-quoted securities - at cost: | | |
| Unlisted equity securities | 20,000 | 20,000 |
| Total AFS financial assets recognized in the statement of financial position | ₱1,695,682,839 | ₱1,389,963,937 |

The costs or amortized cost of AFS financial assets are as follows:

| | 2017 | 2016 |
|---|-----------------------|----------------|
| Quoted securities - at cost or amortized cost: | | |
| Government debt securities: | | |
| Local currency | ₱1,156,525,335 | ₱934,832,046 |
| Listed equity securities: | | |
| Common shares - net of allowance for impairment amounting to ₱31,305,230 in 2017 and ₱11,905,678 in 2016. | 420,181,492 | 355,110,047 |
| Club shares | 1,200,000 | 1,200,000 |
| Unit Investment Fund | 48,810,000 | - |
| | 1,626,716,827 | 1,291,142,093 |
| Non-quoted securities - at cost: | | |
| Unlisted equity securities | 20,000 | 20,000 |
| Total AFS financial assets at cost or amortized cost | ₱1,626,736,827 | ₱1,291,162,093 |



The amounts recognized and transferred to the statement of income due to impairment amounted to ₱19,399,552 and ₱11,905,678 in 2017 and 2016, respectively.

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

| | |
|----------------------------------|-----------------------|
| At January 1, 2016 | ₱1,531,948,982 |
| Additions | 456,064,562 |
| Disposals | (594,484,761) |
| Net amortization of bond premium | (1,599,800) |
| Unrealized fair value loss | (1,965,046) |
| At December 31, 2016 | 1,389,963,937 |
| Additions | 913,177,236 |
| Disposals | (630,809,807) |
| Net amortization of bond premium | (1,768,100) |
| Unrealized fair value gain | 25,119,573 |
| At December 31, 2017 | ₱1,695,682,839 |

The rollforward analysis of the revaluation reserve on AFS financial assets follows:

| | 2017 | 2016 |
|---|---------------------|--------------|
| Balance at beginning of year | ₱98,801,844 | ₱142,128,800 |
| Unrealized fair value gain (loss) | 25,119,573 | (1,965,046) |
| Transferred to profit and loss (Note 23): | | |
| Gain on sale of AFS financial assets | (74,374,957) | (53,267,588) |
| Impairment loss | 19,399,552 | 11,905,678 |
| Balance at end of year | ₱68,946,012 | ₱98,801,844 |

As of December 31, 2017 and 2016, government securities deposited with the IC in accordance with the provision of the Insurance Code (the Code) amounted to ₱145,000,000. These deposited government securities serves as security for the benefit of policyholders and creditors of the Company.

Interest income earned from AFS financial assets amounted to ₱68,481,988 and ₱65,643,942, in 2017 and 2016, respectively (see Note 20).

Dividend income from AFS financial assets amounted to ₱7,779,024 and ₱7,548,511, in 2017 and 2016, respectively (see Note 20).

b) Loans and receivables - net

| | 2017 | 2016 |
|---------------------------------------|---------------------|--------------|
| Accounts receivable - net | ₱193,931,077 | ₱183,301,719 |
| Employee receivables | 6,669,950 | 6,398,753 |
| | 200,601,027 | 189,700,472 |
| Less: Allowance for doubtful accounts | (52,000,000) | (52,000,000) |
| | ₱148,601,027 | ₱137,700,472 |

Accounts receivable as of December 31, 2017 are inclusive of receivable from Mercator Holdings and Management, Corporation amounting to ₱94,821,468, net of ₱52,000,000 provision for doubtful accounts, due to sale on account of investment property.



The following table shows aging information of loans and receivables:

December 31, 2017

| | 1 to 30 days | 31 to 60 days | 61 to 120 days | 121 to 180 days | > 180 days | Total |
|----------------------|-------------------|-------------------|--------------------|-------------------|---------------------|---------------------|
| Accounts receivable | ₱641,698 | ₱1,209,971 | ₱9,878,713 | ₱1,334,215 | ₱128,866,480 | ₱141,931,077 |
| Employee receivables | 1,539,914 | 723,191 | 602,080 | 1,475,697 | 2,329,068 | 6,669,950 |
| | ₱2,181,612 | ₱1,933,162 | ₱10,480,793 | ₱2,809,912 | ₱131,195,548 | ₱148,601,027 |

December 31, 2016

| | 1 to 30 days | 31 to 60 days | 61 to 120 days | 121 to 180 days | > 180 days | Total |
|----------------------|-------------------|---------------------|-------------------|-------------------|--------------------|---------------------|
| Accounts receivable | ₱2,590,620 | ₱102,899,493 | ₱2,364,223 | ₱2,718,852 | ₱20,728,531 | ₱131,301,719 |
| Employee receivables | 752,090 | 739,779 | 943,264 | 1,590,469 | 2,373,151 | 6,398,753 |
| | ₱3,342,710 | ₱103,639,272 | ₱3,307,487 | ₱4,309,321 | ₱23,101,682 | ₱137,700,472 |

7. Reinsurance Assets

This account consists of:

| | 2017 | 2016 |
|---|-----------------------|---------------------|
| Reinsurance recoverable on unpaid losses (Note 13) | ₱751,041,233 | ₱248,454,540 |
| Deferred reinsurance premiums (Note 13) | 623,014,959 | 599,243,842 |
| | ₱1,374,056,192 | ₱847,698,382 |

8. Accrued Income

This account consists of accrued interest income from:

| | 2017 | 2016 |
|---|--------------------|-------------------|
| Interest income on: | | |
| AFS debt securities | ₱11,305,605 | ₱9,815,668 |
| Cash and cash equivalents and short-term investments | 12,593 | 24,217 |
| | ₱11,318,198 | ₱9,839,885 |

9. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs

The rollforward analysis of this account follows:

| | 2017 | 2016 |
|--------------------------------|----------------------|---------------------|
| At January 1 | ₱235,458,824 | ₱239,921,708 |
| Costs deferred during the year | 755,363,180 | 589,070,004 |
| Amortization during the year | (687,290,574) | (593,532,888) |
| At December 31 | ₱303,531,430 | ₱235,458,824 |



Deferred Reinsurance Commissions

The rollforward analysis of this account follows:

| | 2017 | 2016 |
|---------------------------------|----------------------|---------------|
| At January 1 | ₱59,768,426 | ₱81,939,042 |
| Income deferred during the year | 193,994,016 | 172,885,697 |
| Amortization during the year | (191,679,220) | (195,056,313) |
| At December 31 | ₱62,083,222 | ₱59,768,426 |

10. Investment Properties

This account consists of real estate properties foreclosed from former insurance agents of the Company located in Bulacan. The fair values of the properties were estimated using the Sales Comparison Approach. This is a comparative approach that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

In October 2016, the Company booked the sale of real estate properties located in Bulacan, San Mateo, Cabanatuan City, Quezon City, Tagaytay and Antipolo to Mercator Holdings and Management Corporation in compliance with Section 206 of R.A 10607 of the Amended Insurance Code. The selling prices were based on the zonal values of the properties. The Company sold real estate properties worth ₱2,645,201 with proceeds from the sale amounting to ₱146,674,981 thus recognizing gain on sale of ₱144,029,779 in 2016. The Company recognized ₱52,000,000 provision for doubtful accounts in the sale of real estate due to lower of market value over zonal value.

As of December 31, 2017 and 2016, the estimated fair values of the remaining properties in Bulacan amounted to ₱1,176,414. The valuation was performed by an independent appraiser. Description of valuation techniques used and key inputs to valuation on investment properties in 2017:

| Location | Valuation techniques | Significant unobservable inputs | Range (weighted average) |
|---------------------|---------------------------|----------------------------------|--------------------------|
| San Miguel, Bulacan | Sales Comparison Approach | Estimated Computed Value per sqm | ₱106 to ₱225 (₱191) |
| | | Net price (₱/sq.m) | ₱90 to ₱225 |
| | | Internal factor | |
| | | Location | -20% to 0% |
| | | Size | -18% to 20% |
| | | Time element | 0% |
| | | Algebraic sum of internal factor | 0% to 18% |

As of December 31, 2017 and 2016, the cost of investment property amounted to ₱2,745.



11. Property and Equipment

The rollforward analyses of this account follow:

| | 2017 | | | | Total |
|---|--------------------|------------------------|--|--|--------------------|
| | Computer Equipment | Leasehold Improvements | Transportation Equipment (Notes 16 and 17) | Office Furniture, Fixtures and Equipment | |
| Cost | | | | | |
| At January 1, 2017 | ₱20,663,532 | ₱43,299,882 | ₱30,460,255 | ₱8,379,605 | ₱102,803,274 |
| Additions | 41,832,095 | 2,637,084 | 12,301,375 | 1,476,193 | 58,246,747 |
| Disposals | — | — | (1,592,750) | — | (1,592,750) |
| Retirements | (5,559,460) | (34,054,874) | (4,645,238) | (2,831,901) | (47,091,473) |
| At December 31, 2017 | 56,936,167 | 11,882,092 | 36,523,642 | 7,023,897 | 112,365,798 |
| Accumulated depreciation and amortization | | | | | |
| At January 1, 2017 | 9,001,820 | 32,350,216 | 12,279,617 | 4,004,580 | 57,636,233 |
| Depreciation and amortization during the year (Note 22) | 13,062,955 | 8,532,673 | 6,919,788 | 2,418,802 | 30,934,218 |
| Disposals | — | — | (940,247) | — | (940,247) |
| Retirements | (5,559,460) | (34,054,874) | (4,645,238) | (2,831,901) | (47,091,473) |
| At December 31, 2017 | 16,505,315 | 6,828,015 | 13,613,920 | 3,591,481 | 40,538,731 |
| Net book value as of December 31, 2017 | ₱40,430,852 | ₱5,054,077 | ₱22,909,722 | ₱3,432,416 | ₱71,827,067 |
| | | | | | |
| | 2016 | | | | Total |
| | Computer Equipment | Leasehold Improvements | Transportation Equipment (Notes 16 and 17) | Office Furniture, Fixtures and Equipment | |
| Cost | | | | | |
| At January 1, 2016 | ₱38,017,666 | ₱48,461,580 | ₱43,144,668 | ₱20,957,272 | ₱150,581,186 |
| Additions | 7,927,976 | 3,201,569 | 10,773,587 | 2,678,153 | 24,581,285 |
| Disposals | — | — | (1,280,714) | — | (1,280,714) |
| Retirements | (25,282,110) | (8,363,267) | (22,177,286) | (15,255,820) | (71,078,483) |
| At December 31, 2016 | 20,663,532 | 43,299,882 | 30,460,255 | 8,379,605 | 102,803,274 |
| Accumulated depreciation and amortization | | | | | |
| At January 1, 2016 | 27,727,737 | 30,402,421 | 28,775,204 | 16,880,862 | 103,786,224 |
| Depreciation and amortization during the year (Note 22) | 6,556,193 | 10,311,062 | 6,924,377 | 2,379,538 | 26,171,170 |
| Disposals | — | — | (1,242,678) | — | (1,242,678) |
| Retirements | (25,282,110) | (8,363,267) | (22,177,286) | (15,255,820) | (71,078,483) |
| At December 31, 2016 | 9,001,820 | 32,350,216 | 12,279,617 | 4,004,580 | 57,636,233 |
| Net book value as of December 31, 2016 | ₱11,661,712 | ₱10,949,666 | ₱18,180,638 | ₱4,375,025 | ₱45,167,041 |

In 2017 and 2016, the Company disposed of certain assets which resulted to gain on sale of property and equipment amounting to ₱78,671 and ₱351,250, respectively.

12. Other Assets

This account consists of:

| | 2017 | 2016 |
|----------------------------|---------------------|---------------------|
| Creditable withholding tax | ₱204,677,256 | ₱196,905,706 |
| Deposits | 28,485,764 | 15,128,539 |
| Prepaid expenses | 23,130,811 | 33,703,494 |
| Security fund | 55,160 | 55,160 |
| | ₱256,348,991 | ₱245,792,899 |



13. Insurance Contract Liabilities and Reinsurance Assets

Insurance contract liabilities may be analyzed as follows:

| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2017 | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2016 |
|--|--------------------------------|---|-----------------------|--------------------------------|---|-----------------------|
| Provision for claims reported and loss adjustment expenses | ₱1,064,371,031 | ₱644,193,431 | ₱420,177,600 | ₱636,608,785 | ₱189,668,317 | ₱446,940,468 |
| Provision for IBNR | 249,672,323 | 106,847,802 | 142,824,521 | 189,843,076 | 58,786,223 | 131,056,853 |
| Total claims reported and IBNR | 1,314,043,354 | 751,041,233 | 563,002,121 | 826,451,861 | 248,454,540 | 577,997,321 |
| Provision for unearned premiums | 1,914,402,109 | 623,014,959 | 1,291,387,150 | 1,719,261,098 | 599,243,842 | 1,120,017,256 |
| Total Insurance Contract Liabilities | ₱3,228,445,463 | ₱1,374,056,192 | ₱1,854,389,271 | ₱2,545,712,959 | ₱847,698,382 | ₱1,698,014,577 |

Provisions for claims reported by policyholders and IBNR may be analyzed as follows:

| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2017 | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2016 |
|---------------------------------------|--------------------------------|---|---------------------|--------------------------------|---|---------------------|
| At January 1 | ₱710,512,256 | ₱189,668,317 | ₱520,843,939 | ₱1,516,128,521 | ₱1,013,538,659 | ₱502,589,862 |
| Claims incurred during the year | 1,934,433,355 | 778,974,689 | 1,155,458,666 | 831,809,074 | (185,521,957) | 1,017,331,031 |
| Increase in IBNR (Note 21) | 175,768,852 | 106,847,802 | 68,921,050 | (81,514,061) | (105,641,242) | 24,127,181 |
| Claims paid during the year (Note 21) | (1,506,671,109) | (324,449,575) | (1,182,221,534) | (1,439,971,673) | (473,920,920) | (966,050,753) |
| At December 31 | ₱1,314,043,354 | ₱751,041,233 | ₱563,002,121 | ₱826,451,861 | ₱248,454,540 | ₱577,997,321 |

Provision for unearned premiums may be analyzed as follows:

| | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2017 | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 7) | Net 2016 |
|--|--------------------------------|---|-----------------------|--------------------------------|---|-----------------------|
| At January 1 | ₱1,719,261,098 | ₱599,243,842 | ₱1,120,017,256 | ₱1,584,377,925 | ₱648,169,508 | ₱936,208,417 |
| New policies written during the year (Note 19) | 4,786,046,292 | 2,273,202,125 | 2,512,844,167 | 4,129,682,973 | 1,965,340,227 | 2,164,342,746 |
| Premiums earned during the year (Note 19) | (4,590,905,281) | (2,249,431,008) | (2,341,474,273) | (3,994,799,800) | (2,014,265,893) | (1,980,533,907) |
| At December 31 | ₱1,914,402,109 | ₱623,014,959 | ₱1,291,387,150 | ₱1,719,261,098 | ₱599,243,842 | ₱1,120,017,256 |

14. Insurance Contract Liabilities and Reinsurance Assets -Terms, Assumptions and Sensitivities

Terms and Conditions

The major classes of general insurance written by the Company include motor, property, casualty, marine and engineering. Risks under these policies usually cover a 12-month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and IBNR claims) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.



The measurement process primarily includes projections of future claims through use of historical experience statistics. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by class of business. In addition, claims are usually assessed by loss adjusters.

In insurance, as a rule, there may be claims filed in the current year that would attach policies issued in the previous years. This in effect makes claims provision highly sensitive. Other unpredictable circumstances, like legislative uncertainties, make it impossible to quantify claims. Also, due to delays arising between occurrence of claims and their subsequent reporting to and settlement by the Company, the outstanding claim provisions cannot be ascertained with confidence at the end of the reporting period. Consequently, the ultimate liabilities will vary as a result of subsequent developments.

Differences resulting from reassessment of the ultimate liabilities are recognized in subsequent years' financial statements.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Sensitivities

The table below shows the impact of changes in certain important assumptions in general insurance business. The interrelation of these assumptions will have an important impact in the computation of the final liabilities.

2017

| | Change in Assumption | Impact on insurance contract liabilities - net of reinsurance assets | Impact on profit before tax | Impact on equity |
|--------------------------|-----------------------------|---|------------------------------------|-------------------------|
| Average claim costs | -4.00% | (53,993,087) | 53,993,087 | 37,795,161 |
| Average number of claims | 6.00% | 68,403,840 | (68,403,840) | (47,882,688) |

2016

| | Change in Assumption | Impact on insurance contract liabilities - net of reinsurance assets | Impact on profit before tax | Impact on equity |
|--------------------------|-----------------------------|---|------------------------------------|-------------------------|
| Average claim costs | -8.00% | (90,835,031) | 90,835,031 | 63,584,522 |
| Average number of claims | 9.00% | 89,089,622 | (89,089,622) | (62,362,735) |



Loss Development Triangle

The tables that follow present the development of the estimated ultimate claims costs on a gross and net reinsurance basis for the years 2006 and prior to 2015. The tables show the cumulative amounts of the estimated ultimate claims costs during successive years related to each accident year. The increase from the original estimate is due to the combination of a number of factors, including claims being settled for larger amounts than originally expected. The original estimate will also increase or decrease, as more information becomes known about the individual claims and overall claim frequency and severity.

2017

| Accident Year | 2007 and prior | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|--|------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|-------------------------|
| Estimate of ultimate claims costs: | | | | | | | | | | | | |
| At the end of accident year | P3,079,218,639 | P636,356,290 | P2,257,878,954 | P448,731,836 | P1,019,968,706 | P925,722,497 | P2,028,516,617 | P2,291,517,062 | P1,064,534,155 | P1,072,674,346 | P1,830,487,601 | P1,830,487,601 |
| One year later | 3,121,860,102 | 675,770,059 | 1,778,443,598 | 445,692,289 | 1,110,920,652 | 1,140,893,162 | 2,132,963,083 | 2,305,310,938 | 1,162,326,099 | 1,397,491,163 | - | 1,397,491,163 |
| Two years later | 3,174,926,412 | 619,526,641 | 1,616,049,062 | 429,887,967 | 1,099,132,100 | 1,118,179,517 | 2,160,388,700 | 2,097,875,280 | 1,148,835,349 | - | - | 1,148,835,349 |
| Three years later | 3,171,400,749 | 584,817,015 | 1,619,691,807 | 429,515,482 | 1,095,623,582 | 962,574,524 | 2,040,162,011 | 2,086,915,609 | - | - | - | 2,086,915,609 |
| Four years later | 3,179,694,136 | 595,624,268 | 1,633,825,892 | 428,598,504 | 1,027,443,377 | 963,342,760 | 2,029,137,437 | - | - | - | - | 2,029,137,437 |
| Five years later | 3,147,762,448 | 594,215,610 | 1,633,381,716 | 427,544,062 | 1,028,684,643 | 961,122,827 | - | - | - | - | - | 961,122,827 |
| Six years later | 3,155,021,016 | 596,512,430 | 1,617,170,987 | 426,148,191 | 1,028,570,576 | - | - | - | - | - | - | 1,028,570,576 |
| Seven years later | 3,157,030,725 | 592,900,739 | 1,622,231,830 | 425,199,404 | - | - | - | - | - | - | - | 425,199,404 |
| Eight years later | 3,159,386,765 | 586,960,581 | 1,622,660,175 | - | - | - | - | - | - | - | - | 1,622,660,175 |
| Nine years later | 3,153,631,397 | 579,220,317 | - | - | - | - | - | - | - | - | - | 579,220,317 |
| Ten years later | 3,154,598,888 | - | - | - | - | - | - | - | - | - | - | 3,154,598,888 |
| Current estimate of cumulative claims | 3,154,598,888 | 579,220,317 | 1,622,660,175 | 425,199,404 | 1,028,570,576 | 961,122,827 | 2,029,137,437 | 2,086,915,609 | 1,148,835,349 | 1,397,491,163 | 1,830,487,601 | 16,264,239,346 |
| Cumulative payments to date | (3,144,308,312) | (568,110,495) | (1,617,560,175) | (425,199,404) | (1,028,570,411) | (961,050,579) | (2,016,746,732) | (2,083,332,510) | (1,086,414,060) | (1,209,556,422) | (809,346,892) | (14,950,195,992) |
| Total gross insurance liabilities included in the statement of financial position (Note 13) | P10,290,576 | P11,109,822 | P5,100,000 | P- | P165 | P72,248 | P12,390,705 | P3,583,099 | P62,421,289 | P187,934,741 | P1,021,140,709 | P1,314,043,354 |



| Accident Year | 2007 and prior | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|--|------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|------------------------|----------------------|------------------------|
| Estimate of ultimate claims costs: | | | | | | | | | | | | |
| At the end of accident year | P1,981,468,231 | P423,125,401 | P4,568,441,001 | P455,381,798 | P425,879,198 | P593,124,559 | P857,102,734 | P740,577,740 | P794,720,561 | P942,741,897 | P1,076,670,806 | P1,076,670,806 |
| One year later | 2,042,024,551 | 437,033,992 | 373,124,540 | 510,266,101 | 444,979,107 | 648,594,005 | 905,759,169 | 803,801,205 | 868,615,343 | 1,111,305,378 | - | 1,111,305,378 |
| Two years later | 2,033,819,132 | 436,097,288 | 355,039,607 | 500,926,019 | 441,880,364 | 632,788,511 | 862,053,239 | 797,001,416 | 861,919,892 | - | - | 861,919,892 |
| Three years later | 2,027,614,723 | 436,097,288 | 356,168,858 | 500,845,717 | 440,212,273 | 635,303,605 | 880,301,549 | 795,920,071 | - | - | - | 795,920,071 |
| Four years later | 2,027,203,350 | 442,522,884 | 355,852,528 | 500,570,163 | 433,074,793 | 637,014,103 | 874,058,551 | - | - | - | - | 874,058,551 |
| Five years later | 2,031,024,390 | 441,160,729 | 355,786,606 | 499,602,537 | 433,425,639 | 634,789,366 | - | - | - | - | - | 634,789,366 |
| Six years later | 2,038,300,850 | 442,876,957 | 355,616,022 | 498,091,070 | 433,088,612 | - | - | - | - | - | - | 433,088,612 |
| Seven years later | 2,039,971,630 | 439,932,362 | 355,573,339 | 497,142,394 | - | - | - | - | - | - | - | 497,142,394 |
| Eight years later | 2,040,572,189 | 439,369,928 | 355,774,905 | - | - | - | - | - | - | - | - | 355,774,905 |
| Nine years later | 2,034,763,540 | 435,356,885 | - | - | - | - | - | - | - | - | - | 435,356,885 |
| Ten years later | 2,035,250,680 | - | - | - | - | - | - | - | - | - | - | 2,035,250,680 |
| Current estimate of cumulative claims | 2,035,250,680 | 435,356,885 | 355,774,905 | 497,142,394 | 433,088,612 | 634,789,366 | 874,058,551 | 795,920,071 | 861,919,892 | 1,111,305,378 | 1,076,670,806 | 9,111,277,540 |
| Cumulative payments to date | (2,030,135,234) | (434,318,792) | (355,774,905) | (497,142,394) | (433,088,447) | (634,723,154) | (872,345,195) | (793,104,367) | (829,135,870) | (1,069,394,150) | (599,112,911) | (8,548,275,419) |
| Total net insurance liabilities included in the statement of financial position (Note 13) | | | | | | | | | | | | |
| | P5,115,446 | P1,038,093 | P- | P- | P165 | P66,212 | P1,713,356 | P2,815,704 | P32,784,022 | P41,911,228 | P477,557,895 | P563,002,121 |



15. Insurance Payables

This account consists of:

| | 2017 | 2016 |
|---|-----------------------|----------------|
| Due to reinsurers and ceding companies (Notes 26 and 27) | ₱902,210,821 | ₱909,097,512 |
| Funds held for reinsurers (Notes 26 and 27) | 176,920,906 | 141,502,541 |
| | ₱1,079,131,727 | ₱1,050,600,053 |

The rollforward analysis of insurance balances payable follows:

| | Due to Reinsurers | Funds Held for Reinsurers | Total |
|-----------------------------|------------------------|------------------------------|------------------------|
| At January 1, 2016 | ₱699,298,320 | ₱112,286,429 | ₱811,584,749 |
| Arising during the year | 1,547,197,547 | 263,136,981 | 1,810,334,528 |
| Utilized | (1,337,398,355) | (233,920,869) | (1,571,319,224) |
| At December 31, 2016 | 909,097,512 | 141,502,541 | 1,050,600,053 |
| Arising during the year | 2,074,430,065 | 286,302,075 | 2,360,732,140 |
| Utilized | (2,081,316,756) | (250,883,710) | (2,332,200,466) |
| At December 31, 2017 | ₱902,210,821 | ₱176,920,906 | ₱1,079,131,727 |

Interest expense on funds held for reinsurers amounted to ₱963,460 and ₱857,669 in 2017 and 2016, respectively.

16. Accounts Payable and Accrued Expenses

This account consists of:

| | 2017 | 2016 |
|---------------------|---------------------|--------------|
| Accounts payable | ₱164,516,924 | ₱170,892,551 |
| Commissions payable | 212,296,560 | 140,430,955 |
| Deferred output vat | 147,072,830 | 127,820,750 |
| Accrued expenses | 47,391,012 | 40,834,176 |
| Other taxes payable | 29,702,661 | 17,633,484 |
| VAT payable | 22,902,845 | 12,683,902 |
| Premium deposit | 15,665,293 | 13,129,434 |
| Others | 1,348,217 | 1,407,200 |
| | ₱640,896,342 | ₱524,832,452 |

17. Lease Obligation

The Company entered into several 5-year finance leases on transportation equipment. Monthly lease payments are subject to annual repricing depending on the bank's prevailing base rate plus 4.5% or treasury bill rate plus 6.5%, whichever is lower. Moreover, the Company did not enter into finance leases in 2017 and 2016.



18. Equity

Capital Stock Issued

The details of this account follows:

| | |
|---|--------------|
| <i>Authorized shares</i> | |
| Class A - ₱10 par value | ₱28,800,000 |
| Class B - ₱10 par value | 7,200,000 |
| <i>Issued shares</i> | |
| Class A (nonvoting): | |
| Authorized and issued 28,000,000 shares in 2017 and 2016 | 280,000,000 |
| Class B (voting): | |
| Authorized and issued 7,000,000 shares in 2017 and 2016 | 70,000,000 |
| | ₱350,000,000 |

On November 29, 2016, the BOD approved the declaration of cash dividend amounting to ₱100,000,000 divided into 8,000,000 Class A shares and 2,000,000 Class B shares with par value of ₱10 per share out of the retained earnings as of November 30, 2016, which were paid on December 12, 2016.

Retained Earnings

The Company had appropriated ₱12,505,115 of its retained earnings for catastrophic losses.

19. Net Insurance Earned Premiums

Gross earned premiums and reinsurers' share in gross earned premiums on insurance contracts follow:

| | 2017 | 2016 |
|--|-----------------------|-----------------------|
| Gross premiums on insurance contracts: | | |
| Direct insurance | ₱4,194,208,910 | ₱3,713,005,199 |
| Assumed reinsurance | 591,837,382 | 416,677,774 |
| Total gross premiums on insurance contracts (Note 13) | 4,786,046,292 | 4,129,682,973 |
| Gross change in provision for unearned premiums (Note 13) | (195,141,011) | (134,883,173) |
| Total gross earned premiums on insurance contracts (Note 13) | 4,590,905,281 | 3,994,799,800 |
| Reinsurers' share of insurance contracts premiums: | | |
| Direct insurance | 1,995,479,797 | 1,583,227,442 |
| Assumed reinsurance | 277,722,328 | 382,112,785 |
| Total reinsurers' share of insurance contracts premiums (Note 13) | 2,273,202,125 | 1,965,340,227 |
| Reinsurers' share of gross change in provision for unearned premiums (Note 13) | (23,771,117) | 48,925,666 |
| Total reinsurers' share of gross earned premiums on insurance contracts (Note 13) | 2,249,431,008 | 2,014,265,893 |
| Net insurance earned premiums | ₱2,341,474,273 | ₱1,980,533,907 |



20. Investment Income

This account consists of:

| | 2017 | 2016 |
|---|--------------------|--------------------|
| Interest income on: | | |
| AFS debt securities (Note 6) | ₱68,481,988 | ₱65,643,942 |
| Cash and cash equivalents and short-term investments (Note 4) | 11,234,265 | 5,669,201 |
| Dividend income (Note 6) | 7,779,024 | 7,548,511 |
| | ₱87,495,277 | ₱78,861,654 |

21. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid consist of the following:

| | 2017 | 2016 |
|--|-----------------------|-----------------------|
| Insurance contracts benefits and claims paid: | | |
| Direct insurance | ₱1,473,388,627 | ₱1,387,077,528 |
| Assumed reinsurance | 33,282,482 | 52,894,145 |
| Total insurance contract benefits and claims paid (Note 13) | ₱1,506,671,109 | ₱1,439,971,673 |

Reinsurers' share of gross insurance contract benefits and claims paid consist of the following:

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Reinsurers' share of insurance contract benefits and claims paid: | | |
| Direct insurance | ₱319,518,520 | ₱435,303,983 |
| Assumed reinsurance | 4,931,055 | 38,616,937 |
| Total reinsurers' share of insurance contract benefits and claims paid (Note 13) | ₱324,449,575 | ₱473,920,920 |

Gross change in insurance contract liabilities:

| | 2017 | 2016 |
|---|---------------------|-----------------------|
| Change in insurance contract liabilities: | | |
| Direct insurance | ₱132,873,356 | (₱568,307,604) |
| Assumed reinsurance | 294,888,890 | (39,854,995) |
| Change in provision for IBNR (Note 13) | 175,768,852 | (81,514,061) |
| Total gross change in insurance contract liabilities (Note 13) | ₱603,531,098 | (₱689,676,660) |



Reinsurers' share of change in insurance contract liabilities:

| | 2017 | 2016 |
|--|---------------------|-----------------------|
| Reinsurers' share of change in insurance contract liabilities: | | |
| Direct insurance | ₱167,153,676 | (₱613,251,677) |
| Assumed reinsurance | 287,371,438 | (46,191,200) |
| Change in provision for IBNR (Note 13) | 106,847,802 | (105,641,242) |
| Total reinsurers' share of change in insurance contract liabilities (Note 13) | ₱561,372,916 | (₱765,084,119) |

22. Operating Expenses

This account consists of:

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Personnel expenses (Notes 23 and 24) | ₱266,243,326 | ₱235,430,294 |
| Professional fees | 69,417,213 | 51,789,494 |
| Advertising and promotions | 56,360,626 | 63,397,170 |
| Information technology, communication and supplies | 40,582,820 | 38,581,232 |
| Rent (Note 28) | 38,105,772 | 32,191,431 |
| Electricity and maintenance | 32,512,200 | 30,272,986 |
| Depreciation and amortization (Note 11) | 30,934,218 | 26,171,170 |
| Transportation and travel | 15,501,636 | 23,174,687 |
| Entertainment, amusement and recreation | 12,291,853 | 11,708,638 |
| Taxes and licenses | 7,057,362 | 9,443,177 |
| Provision for doubtful accounts (Notes 6 and 10) | 1,682,364 | 52,000,000 |
| Others | 22,564,091 | 9,189,131 |
| | ₱593,253,481 | ₱583,349,410 |

23. Personnel Expenses

This account consists of:

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Salaries and wages | ₱197,068,752 | ₱177,030,194 |
| Service fee | 25,633,386 | 19,269,993 |
| Net benefit expense (Note 24) | 13,927,044 | 11,845,529 |
| SSS, Pag-ibig fund and other contributions | 7,645,970 | 7,033,414 |
| Employee welfare costs | 2,146,665 | 2,747,782 |
| Others | 19,821,509 | 17,503,382 |
| | ₱266,243,326 | ₱235,430,294 |



24. Pension Benefits

Pension plan

The Company has a defined benefit pension plan, covering substantially all of its employees, which requires contribution to be made to administered funds. The plan is administered by a local bank as trustee.

The following tables summarize the components of net benefit expense recognized in the statements of income and the funded status and amounts recognized in the statements of financial position for the plan:

Net Benefit Expense

| | 2017 | 2016 |
|------------------------------|--------------------|-------------|
| Current service cost | ₱12,874,927 | ₱10,993,510 |
| Net interest expense | 1,052,117 | 852,019 |
| Net benefit expense | ₱13,927,044 | ₱11,845,529 |
| Actual return on plan assets | ₱18,748,876 | ₱555,716 |

Remeasurement Effects to be Recognized in OCI

| | 2017 | 2016 |
|--------------------------------------|--------------------|--------------|
| Actuarial gain (loss) on: | | |
| Define benefit obligation | ₱5,239,743 | (₱6,780,912) |
| Plan assets | 14,987,569 | (2,628,444) |
| Total amount to be recognized in OCI | ₱20,227,312 | (₱9,409,356) |

Net Pension Asset

| | 2017 | 2016 |
|-------------------------------|----------------------|---------------|
| Plan assets | ₱139,203,177 | ₱91,885,312 |
| Benefit obligation | (122,457,626) | (113,140,197) |
| Net pension asset (liability) | ₱16,745,551 | (₱21,254,885) |

Changes in fair value (FV) of plan assets are as follows:

| | 2017 | 2016 |
|--------------------------------------|---------------------|-------------|
| FV of plan assets, beginning of year | ₱91,885,312 | ₱68,421,213 |
| Interest income | 3,761,307 | 3,184,160 |
| Benefits paid | (3,131,179) | (4,746,804) |
| Actuarial gains (loss) | 14,987,569 | (2,628,444) |
| Actual contributions | 31,700,168 | 27,655,187 |
| FV of plan assets, end of year | ₱139,203,177 | ₱91,885,312 |



Changes in present value (PV) of the defined benefit obligation are as follows:

| | 2017 | 2016 |
|--|---------------------|---------------------|
| PV of defined benefit obligation, beginning of year | ₱113,140,197 | ₱96,076,400 |
| Current service cost | 12,874,927 | 10,993,510 |
| Interest cost | 4,813,424 | 4,036,179 |
| Benefits paid | (3,131,179) | (4,746,804) |
| Actuarial loss (gain) | (5,239,743) | 6,780,912 |
| PV of defined benefit obligation, end of year | ₱122,457,626 | ₱113,140,197 |

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

| | 2017 | 2016 |
|-------------------------|-------|-------|
| Discount rate | 5.74% | 4.95% |
| Rate of salary increase | 5.50% | 6.00% |

The Company's retirement fund is included in a multi-employer retirement fund registered in the name of Zuellig Group of Companies (the Group) and administered by a local bank as trustee. As of December 31, 2017 and 2016, the FV of the Company's equity in the fund amounted to ₱139,203,177 and ₱91,885,312, respectively; representing 90.91% and 85.72%, respectively, of the market value of the entire plan assets under trust.

The following is the distribution of the Group's plan assets stated at fair value as of December 31:

| | 2017 | 2016 |
|---------------------------------|---------------------|---------------------|
| Cash in bank | ₱26,979,172 | ₱2,006,721 |
| Loans and receivables | - | - |
| Investments | | |
| Bonds and government securities | 75,926,104 | 59,269,010 |
| Marketable equity securities | 35,251,414 | 24,943,351 |
| Common trust fund | 456,668 | 20,341,752 |
| Other receivables | 1,119,644 | 772,227 |
| Liabilities | (529,825) | (135,241) |
| Total plan assets | ₱139,203,177 | ₱107,197,820 |

The Company does not expect to contribute to its retirement plan in 2017.

Sensitivities

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

| | 2017 | | 2016 | |
|-----------------------------|---------------------|---|---------------------|---|
| | Change in variables | Impact on present value of defined benefit obligation Increase (Decrease) | Change in variables | Impact on present value of defined benefit obligation Increase (Decrease) |
| Discount rate | +1.00% | (₱8,866,140) | +1.00% | (₱7,912,165) |
| | -1.00 | 10,387,317 | -1.00 | 9,332,256 |
| Salary increase rate | +1.00 | 11,031,123 | +1.00 | 8,842,108 |
| | -1.00 | (9,584,635) | -1.00 | (7,676,621) |



Maturity profiles of the undiscounted benefit payments are as follows:

| | Expected benefit payments | | Total |
|----------------------------------|---------------------------|------------------------------|-------------|
| | Normal Retirement | Other than Normal Retirement | |
| Less than one year | ₱30,781,123 | ₱4,085,428 | ₱34,866,551 |
| More than one year to five years | 14,358,514 | 20,635,007 | 34,993,521 |
| More than five years to 10 years | 29,931,848 | 32,593,407 | 62,525,255 |
| More than 10 years to 15 years | 47,967,612 | 32,363,410 | 80,331,022 |
| More than 15 years to 20 years | 81,038,947 | 27,923,693 | 108,962,640 |
| More than 20 years | 244,064,588 | 42,578,852 | 286,643,440 |

The average duration of the defined benefit obligation at the end of the reporting period is 18.29 years.

25. Income Tax

The benefit from income tax consists of:

| | 2017 | 2016 |
|----------|--------------------|-------------|
| Final | ₱18,419,377 | ₱25,635,727 |
| Current | 6,759,791 | 7,748,563 |
| Deferred | (986,607) | (3,696,762) |
| | ₱24,192,561 | ₱29,687,528 |

The net deferred income tax asset consists of the tax effects of the following:

| | 2017 | 2016 |
|--|---------------------|--------------|
| Deferred tax assets through profit or loss: | | |
| Excess of provision for unearned premiums per books over tax basis | ₱11,622,471 | ₱35,073,465 |
| Deferred reinsurance commissions | 18,624,967 | 17,930,528 |
| Provision for IBNR losses - net | 36,301,117 | 13,528,427 |
| Allowance for doubtful accounts | 3,881,195 | 3,376,486 |
| Deferred taxes assets through OCI: | | |
| Remeasurement on defined benefit obligation | 204,336 | 6,272,530 |
| Total deferred tax assets | 70,634,086 | 76,181,436 |
| Deferred tax liabilities: | | |
| Deferred acquisition costs | 91,059,429 | 70,637,647 |
| Deferred reinsurance premiums | (41,162,833) | (20,275,287) |
| Total deferred tax liabilities | 49,896,596 | 50,362,360 |
| | ₱20,737,490 | ₱25,819,076 |



The table below shows the temporary differences for which no deferred income tax assets have been set up because the Company believes that there will be no future taxable profit against which the benefit from these can be utilized.

| | 2017 | 2016 |
|---------------------------------|---------------------|-------------|
| NOLCO | ₱61,365,256 | ₱79,544,052 |
| Accrued expenses | 47,391,012 | 40,834,176 |
| Unamortized past service cost | 32,751,890 | 18,449,282 |
| MCIT | 22,062,389 | 21,074,982 |
| Pension obligation | (17,426,671) | 346,453 |
| Provision for IBNR losses - net | 21,820,797 | 28,808,711 |
| Unrealized forex loss | 1,341,662 | 30,517 |

The table below shows the movement of the Company's NOLCO during the year:

| Year Incurred | Amount | Applied | Expired | Balance | Expiry Date |
|---------------|---------------------|-----------|--------------------|--------------------|-------------------|
| 2014 | ₱55,309,566 | ₱- | ₱55,309,566 | ₱- | December 31, 2017 |
| 2016 | 24,234,486 | - | - | ₱24,234,486 | December 31, 2019 |
| 2017 | 37,130,770 | - | - | 37,130,770 | December 31, 2020 |
| | ₱116,674,822 | ₱- | ₱55,309,566 | ₱61,365,256 | |

As of December 31, 2017, the unexpired excess of MCIT over normal tax, which can be claimed as a deduction against income tax due, are as follows:

| Year Incurred | Amount | Expiry Date |
|---------------|--------------------|-------------------|
| 2017 | ₱6,759,791 | December 31, 2020 |
| 2016 | 7,748,563 | December 31, 2019 |
| 2015 | 7,554,035 | December 31, 2018 |
| | ₱22,062,389 | |

In 2016, the MCIT amounting to ₱5,772,384 has expired.

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

| | 2017 | 2016 |
|--|----------------|---------|
| Statutory income tax rate | 30.00% | 30.00% |
| Tax effects of: | | |
| Gain on sale on AFS financial assets | (15.65) | (24.72) |
| Interest income already subjected to final taxes | (3.67) | 1.74 |
| Unrecognized deferred tax assets | (13.12) | 4.04 |
| Dividend income | (1.56) | (0.93) |
| Nondeductible expenses | 7.04 | 2.03 |
| Effective income tax rate | 16.15% | 12.17% |



26. Management of Capital, Insurance and Financial Risks

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the individual business unit levels.

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

Capital Management Framework

The primary objectives of the Company's capital management framework are to provide shareholders with a satisfactory return on their investments, financial security to policyholders, prompt payment of obligations and compliance with the regulatory requirements of the IC.

The IC capital requirements are Fixed Capitalization Requirements and Risk-Based Capital (RBC).

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is higher than the minimum capital requirements set by the regulators and the amount computed under the RBC Model.

The premiums received by the Company from policyholders are properly invested not only to provide for policy obligations but also to serve as capital or surplus to provide margin of safety which will attract insurance buyers.

The funds invested shall produce an investment income that will be needed to pay stockholders a fair return. While part of this income are due to favorable loss experience and sound cost management, a major portion of additional profits must be earned by managing the investment portfolio to produce a higher return on investment. While there may be a wide range of investment opportunities, the investment portfolio must always reflect the safety of the funds.

Since these funds are held in fiduciary capacity, the Code contains investment provisions that the Company should observe to protect the interest of the policyholders and of the stockholders.

The three (3) general classifications of investment requirements are:

1. Capital Investments - The Company must invest at least 25% of its minimum paid-up capital in bonds or other evidences of debt of the Government of the Philippines or its political subdivisions or in government-owned or controlled corporations and entities, including the Bangko Sentral ng Pilipinas.

Furthermore, investments shall at all times be maintained free from any lien or encumbrance and shall be deposited and held by the Commissioner of the IC for the benefit and security of the policyholders.

2. Reserve Investment - The Company must invest 100% of the Reserve for unearned premiums and Reserve funds withheld for authorized reinsurer in common or preferred stocks and government or private bonds, real estate and real estate loans, collateral loans, adequately secured obligations and other securities as may be approved by the Commissioner.



3. Surplus Investment - After complying with the capital and reserve investment requirements, the Company may invest any portion of its funds, representing earned surplus in stocks, bonds, real estate, equities of other financial institutions, engaged in the buying and selling of short term debt instruments, securities issued by registered enterprises under R.A. 5186, otherwise known as the Investment Incentives Act.

To meet its capital management objectives, the Company formed an Investment Management Committee primarily tasked to establish investment strategies consistent with the management objectives and the IC requirements. The Committee had likewise set up limits and control procedures and adequate contingency plans for the Company to withstand both temporary and long term disruption in its ability to fund activities in a timely manner at a reasonable cost.

No changes were made to its capital base, objectives, policies and processes from the previous year.

Fixed Capitalization Requirements

Department of Finance Order (DO) No. 27-06 provides for the capitalization requirements for life, non-life and reinsurance companies on a staggered basis for the years ended December 31, 2006 up to 2011. Depending on the level of the foreign ownership in the insurance company, the minimum statutory net worth and minimum paid-up capital requirements vary. The statutory net worth shall include the company's paid-up capital, capital in excess of par value, contingency surplus, retained earnings and revaluation increments as may be approved by the IC. The minimum paid-up capital is pegged at 50% of the minimum statutory net worth.

On August 5, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements for all existing insurance companies based on networth on a staggered basis starting June 30, 2013 up to December 31, 2022.

On January 13, 2015, the IC issued Circular Letter No. 2015-02-A clarifying the minimum capitalization and net worth requirements of new and existing insurance companies in the Philippines. All domestic life and non-life insurance companies duly licensed by the IC must have a networth of at least ₱250.00 million by December 31, 2013. The minimum net worth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

| Networth | Compliance Date |
|-----------------|------------------------|
| ₱250,000,000 | June 30, 2013 |
| 550,000,000 | December 31, 2016 |
| 900,000,000 | December 31, 2019 |
| 1,300,000,000 | December 31, 2022 |

As of December 31, 2017 and 2016, the Company's networth amounted to ₱1,172,095,668 and ₱1,062,192,075, respectively.

The final amount of the networth can be determined only after the accounts of the Company have been examined by the IC.

Risk-based Capital Requirements

In 2006, the IC issued Memorandum Circular (IMC) No. 7-2006 adopting a risk-based capital framework to establish the required amounts of capital to be maintained by non-life insurance companies in relation to their investment and insurance risks. The RBC ratio of a company shall be calculated as Net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and



fluctuation reserve accounts shall form part of net worth only to the extent authorized by the Insurance Commissioner.

In 2016, the IC issued Circular Letter No. 2016-68, Amended Risk-Based Capital (RBC2) Framework, pursuant to Section 437 of the Amended Insurance Code. The RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 Capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis (e.g. Capital Stock, Statutory Deposit, Capital Stock Subscribed, Contributed Surplus, etc.). Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer [e.g. Reserve for Appraisal Increment – Property and Equipment, Remeasurement Gains (Losses) on Retirement Pension Asset (Obligation), etc. Tier 2 Capital shall not exceed 50% of Tier 1 Capital.

The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test.

The following table shows how the RBC ratio as of December 31, 2017 and 2016 was determined by the Company:

| | 2017 | 2016 |
|-----------------|-------------|-------------|
| Net worth | 907,799,274 | 837,892,901 |
| RBC requirement | 391,289,127 | 361,603,402 |
| RBC Ratio | 232% | 232% |

The final 2017 RBC ratio can be determined only after the accounts of the Company have been examined by the IC. The 2016 RBC ratio was determined final during the examination made by the IC.

New regulatory framework

Pursuant to the powers vested in the Insurance Commissioner by Sections 189, 200, 437 and 438 of Republic Act (RA) No. 10607, otherwise known as the Insurance Code, as amended, the following regulatory requirements and actions for the new regulatory framework are hereby adopted and promulgated:

Circular Letter No. 2016-65, *Financial Reporting Framework under Section 189 of the Amended Insurance Code (Republic Act No. 10607)*, prescribes the new financial reporting framework (FRF) that will be used for the statutory quarterly and annual reporting. This also includes rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies.

Circular Letter 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves*, prescribes the new valuation methodology for the non-life insurance companies. Non-life insurance companies will be changing the basis of valuation of their non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The incurred but not reported (IBNR) reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. A margin for adverse deviation is estimated based on standard projection techniques or combination of such techniques, such as but not limited to the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of



the Policy Liabilities at the 75th percentile level of sufficiency. Discount rates to be used shall be current risk-free rates. The rates shall exactly match the duration of the policy and the currency of the cash flows and shall be prescribed by the Insurance Commission.

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

Implementation requirements and transition accounting

Circular Letter No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-based Capital Framework*. The new regulatory requirements under circular letters 2016-65, 2016-67, 2016-68 and 2016-69 shall take effect beginning January 1, 2017.

Circular Letter No. 2017-15, *Regulatory Requirements and Actions for the New Regulatory Framework*. The cumulative prior year impact of the changes arising from the adoption of the New Financial Reporting Framework, including the revaluation of the reserves for Claims and Premiums Liabilities computed based on the new valuation standards for non-life insurance policy reserves as provided under CL No. 2016-67, shall be recognized in Retained Earnings – Transition Adjustments account except for items listed in Section 2.1. All changes in valuation shall be measured net of any tax effect.

Insurance Risk

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

Occurrence risk - the possibility that the number of insured events will differ from those expected.

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

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

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

The business of the Company comprises short-term nonlife insurance contracts. For general insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

These risks currently do not vary significantly in relation to the location of the risk insured by the Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.



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

- The use and maintenance of management information systems that provide up-to-date, accurate and reliable data on risk exposure at any point in time;
- Guidelines are issued for concluding insurance contracts and assuming insurance risks;
- Pro-active claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims;
- Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security; and
- Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Reinsurance

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota-share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

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

The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

The following table sets out the concentration of the claims liabilities by type of contract:

| | 2017 | | | 2016 | | |
|-------------|-----------------------|----------------------------------|---------------------|---------------------|----------------------------------|---------------------|
| | Gross Liabilities | Reinsurers' Share of Liabilities | Net Liabilities | Gross Liabilities | Reinsurers' Share of Liabilities | Net Liabilities |
| Motor car | ₱376,665,357 | ₱32,766,052 | ₱343,899,305 | ₱433,707,871 | ₱21,146,006 | ₱412,561,865 |
| Fire | 665,515,481 | 542,757,012 | 122,758,469 | 188,920,184 | 113,438,027 | 75,482,157 |
| Casualty | 97,213,283 | 58,557,461 | 38,655,822 | 86,972,490 | 52,159,532 | 34,812,958 |
| Marine | 103,398,346 | 92,115,091 | 11,283,255 | 35,284,640 | 24,422,819 | 10,861,821 |
| Engineering | 29,766,229 | 14,401,085 | 15,365,144 | 36,668,697 | 28,378,563 | 8,290,134 |
| Bonds | 22,950,233 | 5,556,172 | 17,394,061 | 20,672,854 | 3,881,181 | 16,791,673 |
| Accident | 17,244,302 | 4,888,360 | 12,355,942 | 23,323,470 | 5,028,412 | 18,295,058 |
| Medical | 1,290,123 | — | 1,290,123 | 901,655 | — | 901,655 |
| | ₱1,314,043,354 | ₱751,041,233 | ₱563,002,121 | ₱826,451,861 | ₱248,454,540 | ₱577,997,321 |

Financial Instruments

Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, accrued income, insurance payables, and accounts payable and accrued expenses, their carrying values reasonably approximate fair values at year-end.

The fair value of AFS financial assets that are actively traded in organized financial markets is determined by reference to quoted market within the bid-offer price range, at the close of business on the reporting date or last trading day as applicable.



The fair value of unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of cash flows and the lack of suitable method at arriving at a fair value are carried at cost.

Fair Value Hierarchy

The Company classifies its financial assets at fair value as follows:

December 31, 2017

| | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|--|--|--|--|-----------------------|
| Assets measured at fair value: | | | | |
| AFS financial assets | | | | |
| Government debt securities | | | | |
| Local currency | ₱1,197,349,469 | ₱- | ₱- | ₱1,197,349,469 |
| Listed equity securities | 431,103,370 | - | - | 431,103,370 |
| Golf club shares | 18,400,000 | - | - | 18,400,000 |
| Unit investment fund | 48,810,000 | - | - | 48,810,000 |
| | 1,695,662,839 | - | - | 1,695,662,839 |
| Assets for which fair values are disclosed: | | | | |
| Loans and receivables - net | | | | |
| Accounts receivables | - | 141,931,077 | - | 141,931,077 |
| Employee receivables | - | 6,669,950 | - | 6,669,950 |
| Investment properties | - | - | 1,176,414 | 1,176,414 |
| | - | 148,601,027 | 1,176,414 | 149,777,441 |
| | ₱1,695,662,839 | ₱148,601,027 | ₱1,176,414 | ₱1,845,440,280 |

December 31, 2016

| | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|--|--|--|--|-----------------------|
| Assets measured at fair value: | | | | |
| AFS financial assets | | | | |
| Government debt securities | | | | |
| Local currency | ₱1,054,805,725 | ₱- | ₱- | ₱1,054,805,725 |
| Listed equity securities | 320,118,212 | - | - | 320,118,212 |
| Golf club shares | 15,020,000 | - | - | 15,020,000 |
| | 1,389,943,937 | - | - | 1,389,943,937 |
| Assets for which fair values are disclosed: | | | | |
| Loans and receivables - net | | | | |
| Accounts receivables | - | 131,301,719 | - | 131,301,719 |
| Employee receivables | - | 6,398,753 | - | 6,398,753 |
| Investment properties | - | - | 1,176,414 | 1,176,414 |
| | - | 137,700,472 | 1,176,414 | 138,876,886 |
| | ₱1,389,943,937 | ₱137,700,472 | ₱1,176,414 | ₱1,528,820,823 |



The Company uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

- Level 1:* quoted (unadjusted prices) in active markets for identical assets and liabilities
- Level 2:* other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3:* techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Fair values of equity and debt instruments classified as AFS financial assets were determined using Level 1.

There have been no reclassifications from Level 1 to Level 2 category.

Financial Risk

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

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

The Company's objectives in managing exposure to financial risks include providing financial security to policyholders, ensure prompt payment of its obligations and to provide owners with a satisfactory return on their investments.

To ensure that these objectives are met, the Company's policies and procedures require monitoring of financial risks by the Chief Financial Officer and regularly reviewed by the BOD.

Credit risk

Credit risk is a risk due to uncertainty in a counterparty's (also called an obligor) ability to meet its obligation.

Management has established a Credit Control policy, which provides for terms of business and credit reference criteria. The policy requires that financial references are obtained for each agent and broker when credit is given. Credit terms are set for the counterparty but these are withdrawn or restricted when these are breached. Any deviation from the policy requires justification subject to approval by the Management.

The Company's procedures provide for the monitoring of the counterparty's ability to meet its obligations through regular review of each account. Statements of accounts with covering letter are regularly sent to agents and brokers reminding them of their outstanding balances and to follow up payment. Reconciliation of accounts is also done on a regular basis.

The Credit Control policy is regularly reviewed by the Management and amended as necessary.

For cash and cash equivalents and investments, the Company considers the safety of the investment, yield or income, liquidity, diversification, capital growth and appreciation.



The following are the acceptable instruments set up by the Investment Committee in order of priority:

1. Government Securities
2. Special Savings Accounts/ Bank Promissory Notes
3. Commercial papers with credit rating of 2 for short term and B for long term
4. Preferred and Common stocks (Blue Chip stocks only)

The table below shows the maximum exposure to credit risk for the components of its statement of financial position.

| | 2017 | 2016 |
|------------------------------------|-----------------------|----------------|
| Cash and cash equivalents (Note 4) | ₱826,493,704 | ₱942,594,671 |
| Insurance receivables (Note 5) | 1,468,751,394 | 1,394,110,004 |
| Short-term investments (Note 4) | 1,326,311 | 1,306,567 |
| Financial assets: | | |
| AFS financial assets (Note 6) | 1,695,682,839 | 1,389,963,937 |
| Loans and receivables (Note 6) | 148,601,027 | 137,700,472 |
| Accrued income (Note 8) | 11,318,198 | 9,839,885 |
| | ₱4,152,173,473 | ₱3,875,515,536 |

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

December 31, 2017

| | Neither Past Due nor Impaired | | Past Due or Impaired | Total |
|--|-------------------------------|-----------------------|-------------------------|-----------------------|
| | Investment Grade | Satisfactory | | |
| Cash and cash equivalents | ₱826,493,704 | ₱- | ₱- | ₱826,493,704 |
| Short-term investments | 1,326,311 | - | - | 1,326,311 |
| Insurance receivables: | | | | |
| Due from brokers and agents | - | 1,196,713,718 | 75,126,808 | 1,271,840,526 |
| Due from ceding companies and reinsurers | - | 24,085,957 | 36,789,069 | 60,875,026 |
| Reinsurance recoverable on paid losses | - | 36,442,511 | 99,593,331 | 136,035,842 |
| Financial assets: | | | | |
| AFS financial assets: | | | | |
| Government debt securities | 1,197,349,469 | - | - | 1,197,349,469 |
| Listed equity securities | 346,751,636 | - | 84,351,734 | 431,103,370 |
| Club shares | 18,400,000 | - | - | 18,400,000 |
| Unlisted equity securities | 20,000 | - | - | 20,000 |
| Unit investment fund | 48,810,000 | - | - | 48,810,000 |
| Loans and receivables: | | | | |
| Accounts receivable | - | 141,931,077 | - | 141,931,077 |
| Employee receivables | - | 6,669,950 | - | 6,669,950 |
| Accrued income | 11,318,198 | - | - | 11,318,198 |
| Total | ₱2,450,469,318 | ₱1,405,843,213 | ₱295,860,942 | ₱4,152,173,473 |

December 31, 2016

| | Neither Past Due nor Impaired | | Past Due or Impaired | Total |
|--|-------------------------------|---------------|-------------------------|---------------|
| | Investment Grade | Satisfactory | | |
| Cash and cash equivalents | ₱942,594,671 | ₱- | ₱- | ₱942,594,671 |
| Short-term investments | 1,306,567 | - | - | 1,306,567 |
| Insurance receivables: | | | | |
| Due from brokers and agents | - | 1,141,300,727 | 76,072,835 | 1,217,373,562 |
| Due from ceding companies and reinsurers | - | 18,685,865 | 11,215,016 | 29,900,881 |
| Reinsurance recoverable on paid losses | - | 72,616,679 | 74,218,882 | 146,835,561 |

(Forward)



| | Neither Past Due nor Impaired | | Past Due or Impaired | Total |
|----------------------------|-------------------------------|-----------------------|-------------------------|-----------------------|
| | Investment Grade | Satisfactory | | |
| Financial assets: | | | | |
| AFS financial assets: | | | | |
| Government debt securities | ₱1,054,805,725 | ₱- | ₱- | ₱1,054,805,725 |
| Listed equity securities | 287,358,987 | - | 32,759,225 | 320,118,212 |
| Club shares | 15,020,000 | - | - | 15,020,000 |
| Unlisted equity securities | 20,000 | - | - | 20,000 |
| Loans and receivables: | | | | |
| Accounts receivable | - | 131,301,719 | - | 131,301,719 |
| Employee receivables | - | 6,398,753 | - | 6,398,753 |
| Accrued income | 9,839,885 | - | - | 9,839,885 |
| Total | ₱2,310,945,835 | ₱1,370,303,743 | ₱194,265,958 | ₱3,875,515,536 |

The Company uses a credit rating concept based on the borrowers and counterparties' overall creditworthiness, as follows:

Investment grade - This rating class is given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations. These financial assets have the smallest degree of financial risk.

Satisfactory - This rating class is given to borrowers and counterparties who possess above average capacity to meet its obligations.

The tables below show the analysis of age of financial assets that are past-due or impaired.

December 31, 2017

| | Age analysis of Past-Due Financial Assets but not Impaired | | | Total Past Due but not Impaired | Past-Due and Impaired | Total |
|---|--|--------------------|--------------------|---------------------------------------|--------------------------|---------------------|
| | < 30 days | 31 to 90 days | Over 91 days | | | |
| Insurance receivables: | | | | | | |
| Due from agents and brokers | ₱31,781,621 | ₱9,718,314 | ₱26,350,878 | ₱67,850,813 | ₱7,275,995 | ₱75,126,808 |
| Due from ceding companies and reinsurers | 11,593,558 | 11,141,696 | 14,053,814 | 36,789,068 | - | 36,789,069 |
| Reinsurance recoverable on paid losses | 29,950,110 | 10,104,101 | 53,877,798 | 93,932,009 | 5,661,322 | 99,593,331 |
| AFS financial | - | - | - | - | 84,351,734 | 84,351,734 |
| Total | ₱73,325,289 | ₱30,964,111 | ₱94,282,490 | ₱198,571,890 | ₱97,289,051 | ₱295,860,942 |

December 31, 2016

| | Age analysis of Past-Due Financial Assets but not Impaired | | | Total Past Due but not Impaired | Past-Due and Impaired | Total |
|---|--|--------------------|--------------------|---------------------------------------|--------------------------|---------------------|
| | < 30 days | 31 to 90 days | Over 91 days | | | |
| Insurance receivables: | | | | | | |
| Due from agents and brokers | ₱18,839,489 | ₱38,901,383 | ₱10,342,862 | ₱68,083,734 | ₱7,989,101 | ₱76,072,835 |
| Due from ceding companies and reinsurers | 3,889,596 | 4,083,900 | 3,241,520 | 11,215,016 | - | 11,215,016 |
| Reinsurance recoverable on paid losses | 11,473,722 | 3,386,944 | 56,092,364 | 70,953,030 | 3,265,852 | 74,218,882 |
| AFS financial | - | - | - | - | 32,759,225 | 32,759,225 |
| Total | ₱34,202,807 | ₱46,372,227 | ₱69,676,746 | ₱150,251,780 | ₱44,014,178 | ₱194,265,958 |

Liquidity risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a



contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

Liquidity risk is a risk due to uncertain liquidity. An institution may suffer liquidity problem when its credit rating falls. The Company is also exposed to liquidity risk if markets on which it depends on are subject to loss of liquidity.

It is the Company's objective to develop a plan that will provide a well-balanced cash flow to ensure that enough cash is available to meet its obligations and to fund its operational requirements. A well-managed cash flow statement will yield positive cash balance in compliance to the requirement of the IC.

To meet these objectives, the Company prepares a Cash Flow Plan which entails forecasting and tabulating all significant cash inflows relating to premiums paid by policyholders, interest received from investments and others, and analyzing in detail the timing of expected payments relating to supplies, wages, other expenses, capital expenditure, dividends, tax, and others. Excess funds resulting from positive cash flows are invested in short term placements and high yielding government securities.

The table below summarizes the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual amounts based on remaining contractual maturity, or for the insurance contract liabilities, based on the estimated timing of net cash outflows.

December 31, 2017

| | Up to a year | 1 to 3 years | 3 to 5 years | Over 5 years | No term | Total |
|---------------------------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| Cash and cash equivalents | ₱826,660,504 | ₱- | ₱- | ₱- | ₱- | ₱826,660,504 |
| Short-term investments | 1,326,311 | - | - | - | - | 1,326,311 |
| Insurance receivables | 1,455,814,077 | - | - | - | - | 1,455,814,077 |
| Financial assets | | | | | | |
| AFS financial assets | 69,763,962 | 389,172,150 | 124,866,951 | 662,356,406 | 449,523,370 | 1,695,682,839 |
| Loans and receivables | 148,601,027 | - | - | - | - | 148,601,027 |
| Reinsurance assets | 751,041,233 | - | - | - | - | 751,041,233 |
| Accrued income | 11,318,198 | - | - | - | - | 11,318,198 |
| Total financial assets | ₱3,264,525,312 | ₱389,172,150 | ₱124,866,951 | ₱662,356,406 | ₱449,523,370 | ₱4,890,444,189 |
| Insurance contract liabilities | ₱1,314,043,354 | ₱- | ₱- | ₱- | ₱- | ₱1,314,043,354 |
| Insurance payables | 1,079,131,727 | - | - | - | - | 1,079,131,727 |
| Accounts payable and accrued expenses | 425,552,714 | - | - | - | - | 425,552,714 |
| Total financial liabilities | ₱2,818,727,795 | ₱- | ₱- | ₱- | ₱- | ₱2,818,727,795 |

December 31, 2016

| | Up to a year | 1 to 3 years | 3 to 5 years | Over 5 years | No term | Total |
|---------------------------------------|-----------------------|---------------------|--------------------|---------------------|---------------------|-----------------------|
| Cash and cash equivalents | ₱942,755,971 | ₱- | ₱- | ₱- | ₱- | ₱942,755,971 |
| Short-term investments | 1,306,567 | - | - | - | - | 1,306,567 |
| Insurance receivables | 1,382,855,051 | - | - | - | - | 1,382,855,051 |
| Financial assets | | | | | | |
| AFS financial assets | - | 115,399,582 | 86,856,858 | 852,549,285 | 335,158,212 | 1,389,963,937 |
| Loans and receivables | 137,700,472 | - | - | - | - | 137,700,472 |
| Reinsurance assets | 248,454,540 | - | - | - | - | 248,454,540 |
| Accrued income | 9,839,885 | - | - | - | - | 9,839,885 |
| Total financial assets | ₱2,722,912,486 | ₱115,399,582 | ₱86,856,858 | ₱852,549,285 | ₱335,158,212 | ₱4,112,876,723 |
| Insurance contract liabilities | ₱826,451,861 | ₱- | ₱- | ₱- | ₱- | ₱826,451,861 |
| Insurance payables | 1,050,600,053 | - | - | - | - | 1,050,600,053 |
| Accounts payable and accrued expenses | 353,564,883 | - | - | - | - | 353,564,883 |
| Total financial liabilities | ₱2,230,616,797 | ₱- | ₱- | ₱- | ₱- | ₱2,230,616,797 |



Market risk

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

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Company manages market risk by evenly distributing capital among investment instruments.

The Company structures the levels of market risk it accepts through a sound market risk policy based on specific guidelines set by the Investment Committee. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation and portfolio limit structure.

Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

Currency risk

The Company's principal transactions are carried out in Philippine peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements.

The Company's financial assets are denominated in the same currencies as its insurance liabilities which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

The following table summarizes the Company's exposure to foreign currency exchange risk as of December 31, 2017 and 2016:

| | 2017 | | 2016 | |
|---------------------------|--------------------|---------------------|-------------|--------------|
| | US\$ | PHP | US\$ | PHP |
| Assets | | | | |
| Cash and cash equivalents | \$1,243,223 | ₱62,074,138 | \$3,024,704 | ₱150,080,637 |
| Insurance receivables | 6,429,170 | 323,578,967 | 6,718,626 | 318,926,230 |
| | \$7,672,393 | ₱385,653,105 | \$9,743,330 | ₱469,006,867 |
| Liabilities | | | | |
| Other insurance payables | \$7,115,244 | ₱358,582,858 | \$7,776,770 | ₱370,614,256 |



The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities).

December 31, 2017

| | Change in variables | Impact on profit before tax Increase (Decrease) |
|-----|------------------------|---|
| USD | +P2 | P1,114,297 |
| USD | -P1 | (557,149) |

December 31, 2016

| | Change in variables | Impact on profit before tax Increase (Decrease) |
|-----|------------------------|---|
| USD | +P2 | P3,933,121 |
| USD | -P1 | (1,966,561) |

There is no impact on the Company's equity other than those already affecting the net income.

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's fixed rate investments in particular are exposed to fair value interest rate risk.

The Company's market risk policy requires it to manage interest rate risk by investing in fixed rate instruments.

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

| | Interest Rates | Maturity | | | Over 5 years | Total |
|-----------------------------|-------------------|------------------|--------------|--------------|-----------------|----------------|
| | | Within 1 year | 1-3 years | 3-5 years | | |
| AFS financial assets | | | | | | |
| 2017 | 1.00% - 5.00% | P20,953,962 | P389,172,150 | P124,866,951 | P662,356,406 | P1,197,349,469 |
| 2016 | 1.00% - 4.00% | P- | P115,399,582 | P86,856,858 | P852,549,285 | P1,054,805,725 |

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects adjustments on revaluing fixed rate available-for-sale financial assets).



December 31, 2017

| | Change in variables | Impact on equity Increase (Decrease) |
|------|----------------------------|---|
| Peso | +100 basis points | (₱61,091,155) |
| | -50 basis points | 32,871,656 |

December 31, 2016

| | Change in variables | Impact on equity Increase (Decrease) |
|------|----------------------------|---|
| Peso | +100 basis points | (₱76,083,621) |
| | -50 basis points | 41,464,618 |

Price risk

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

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investment, diversification plan and limits on investments.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects changes in fair value of available-for-sale financial assets).

December 31, 2017

| | Change in Variable | Impact on equity Increase (Decrease) |
|----------------|---------------------------|---|
| Market Index 1 | +12.30% | ₱51,700,327 |
| | -12.30% | (51,700,327) |

December 31, 2016

| | Change in Variable | Impact on equity Increase (Decrease) |
|----------------|---------------------------|---|
| Market Index 1 | +14.32% | ₱50,860,041 |
| | -14.32% | (50,860,041) |

27. Related Party Transactions

Significant related party transactions are summarized below:

- a. Compensation of key management personnel

Key management personnel of the Company include all management staff.



The summary of compensation of key management personnel is as follows:

| | 2017 | 2016 |
|-------------------------|--------------------|-------------|
| Salaries and wages | ₱68,188,643 | ₱62,234,421 |
| Other employee benefits | 839,922 | 831,191 |



b. Transactions with related parties consist mainly of the following activities:

| Category | Amount | | Outstanding Balance | | Terms | | Conditions |
|--|-------------------|-------------|---------------------|------------|---|--------|----------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | |
| <i>Companies under common control</i> | | | | | | | |
| Premiums | | | | | | | |
| Metro Drug Inc. | ₱5,018,855 | ₱1,046,722 | ₱2,548,959 | ₱— | 90-day | 90-day | Not applicable |
| Bridgebury Realty Corp. | 21,274,742 | 8,414,620 | 12,884,394 | 8,385,121 | 90-day | 90-day | Not applicable |
| Interphil Laboratories Inc. | 5,372,276 | 5,582,489 | — | 1,695,617 | 90-day | 90-day | Not applicable |
| Mercator Holdings and Mgt Corp. | 695,210 | 1,109,320 | 56,577 | 223,166 | 90-day | 90-day | Not applicable |
| Zuellig Family Foundation | 346,762 | 353,644 | 84,816 | — | 90-day | 90-day | Not applicable |
| Zuellig Pharma Asia Pacific | 858,645 | 661,624 | — | 21,197 | 90-day | 90-day | Not applicable |
| Zuellig Pharma Corp. | 95,775,506 | 76,532,492 | 527,263 | 86,352 | 90-day | 90-day | Not applicable |
| Lease | | | | | | | |
| Bridgebury Realty Corp. | | | | | | | |
| Rent expense | 20,002,042 | 18,485,389 | — | — | 5-year operating lease | | Not applicable |
| Security deposit | 5,981,403 | 5,981,403 | 5,981,403 | 5,981,403 | Refundable at the end of the lease term | | Not applicable |
| Prepaid rent | 9,189,659 | 9,189,659 | 9,189,659 | 9,189,659 | Three-month advance payments | | |
| Real Estate | | | | | | | |
| Mercator Holdings and Mgt Corp. | 703,338 | 146,674,980 | 94,821,468 | 94,118,130 | Once sold to third party | | Not applicable |



28. Lease Commitments

The Company entered into the following lease agreements:

- a. Five-year lease for an office space for its Cebu branch effective May 16, 2016 until May 15, 2021. The stipulated monthly rent of ₱99,651 shall have an escalation rate of 10.0% every year.
- b. Five-year lease for its main office premises effective October 15, 2017 until October 14, 2022 with stipulated monthly rent of ₱1,872,000 and parking lease with stipulated monthly rent of ₱174,000, shall have an escalation rate of 20% on the second year and 5% in succeeding year. Three-year storage lease effective December 17, 2015 to December 16, 2018 with stipulated monthly rent of ₱48,712 and a two-year parking lease effective January 1, 2016 to December 31, 2017 with stipulated monthly rent of ₱15,964.
- c. Three-year lease of an office space for its Davao branch effective July 1, 2014 to December 31, 2017. The stipulated monthly rent of ₱31,944 shall have an escalation rate of 5.0% annually.
- e. Five-year lease of an office space for its Angeles branch effective February 1, 2017 to January 31, 2022. The stipulated monthly rent of ₱68,446 shall have an escalation rate of 8.0% annually.
- f. Five-year lease of an office space for its Lipa branch effective January 1, 2016 to January 1, 2021. The stipulated monthly rent of ₱62,500 shall have an escalation rate of 5.0% starting on the third year.
- g. One-year lease of an office and parking space for its Binondo satellite office effective October 1, 2017 to October 1, 2018 with stipulated monthly rent of ₱34,977 and a parking lease of ₱2,625 monthly.
- h. Five-year lease of an office space for its Alabang branch effective November 24, 2014 to November 24, 2019 with stipulated monthly rent of ₱50,504, shall have an escalation rate of 6% starting on the second year and a parking lease of ₱2,500 monthly.
- i. Lease of an office space for its Quezon City branch as follows:

| Unit | Period | Monthly Rent | Escalation rate |
|--------------|--------------------------------------|--------------|-------------------------------|
| Unit 602 | February 1, 2012 to January 31, 2020 | ₱73,205 | 5% starting on the third year |
| Unit 604 | February 1, 2012 to January 31, 2020 | 18,222 | 5% starting on the third year |
| Unit 601-A | January 1, 2015 to December 31, 2020 | 55,341 | 5% starting on the third year |
| Unit 601-B | April 16, 2012 to April 15, 2020 | 29,882 | 5% starting on the third year |
| Unit 605 | July 1, 2012 to June 30, 2020 | 14,053 | 5% starting on the third year |
| Storage Area | July 1, 2012 to June 30, 2020 | 2,014 | |

- j. Three-year lease of an office space for its Dagupan branch effective June 1, 2016 to May 31, 2019 with a stipulated monthly rent of ₱16,000.
- k. Two-year lease of an office space for its Cagayan de Oro branch effective April 1, 2017 to April 1, 2019. The stipulated monthly rent of ₱29,768 shall have an annual escalation rate of 5.0%.



- l. Two-year lease of an office space for its Ortigas branch effective April 16, 2017 to April 15, 2019 with stipulated monthly rent of ₱103,608, shall have an escalation rate of 5% on the second year.
- m. Two-year lease of an office space for its Las Piñas satellite office effective January 1, 2015 to December 31, 2017 with stipulated monthly rent of ₱31,944.
- n. One-year lease of an office space for its Iloilo satellite office effective March 1, 2017 to February 28, 2018 with stipulated monthly rent of ₱8,000.
- o. Two-year lease of an office space for its Bacolod branch effective December 1, 2017 to November 30, 2019 with stipulated monthly rent of ₱30,000 shall have an escalation of rate of 10% on the second year.
- p. One-year lease of an office space for its Laguna satellite office effective January 1, 2017 to December 31, 2017 with stipulated monthly rent of ₱11,000.
- q. Three-year lease of an office space for its Commonwealth satellite office effective September 1, 2015 to August 31, 2018 with stipulated monthly rent of ₱39,069 and have an escalation rate of 5% on the third year.
- r. Three-year lease of an office space for FPAC Business Lounge effective December 16, 2015 to December 15, 2018. The stipulated monthly rent of ₱243,810 shall have an escalation rate of 5% annually. One-year parking lease with stipulated monthly rent of ₱1,000.
- s. Two-year lease of an office space for its Tarlac satellite office effective April 1, 2016 to March 31, 2018 with stipulated monthly rent of ₱13,200.
- t. Two-year lease of an office space for its General Santos satellite office effective May 1, 2017 to April 30, 2019 with stipulated monthly rent of ₱18,876 and have an escalation rate of 10% on the second year.
- u. One-year lease of an office space for its Cavite satellite office effective April 1, 2017 to March 31, 2018 with stipulated monthly rent of ₱20,000.
- v. One-year lease of an office space for its Baguio satellite office effective January 20, 2017 to January 19, 2018 with stipulated monthly rent of ₱10,080.
- w. Three-year lease of an office space for its Ortigas extension office effective April 1, 2016 to March 31, 2019 with stipulated rent of ₱78,860, shall have an escalation rate of 5% on the second year.
- x. One-year lease of an office space for its Nuvali satellite office effective February 1, 2017 to January 31, 2018 with stipulated monthly rent of ₱21,920.

Rent expense charged against operations amounted to ₱38,105,772 and ₱32,191,431 in 2017 and 2016, respectively.



Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 2017 | 2016 |
|--|---------------------|--------------------|
| Within one year | P10,166,147 | P30,934,662 |
| After one year but not more than 5 years | 116,539,200 | 42,169,072 |
| More than five years | 45,228,639 | 448,838 |
| | P171,933,986 | P73,552,572 |

29. Reconciliation of PFRS Net Income to Statutory Net Income

The reconciliation of PFRS net income to statutory net income follows:

| | 2017 | 2016 |
|---|--------------------|---------------------|
| PFRS net income | P125,600,307 | P214,323,408 |
| Add (deduct): | | |
| Deferred acquisition costs - net | (65,757,809) | (17,707,732) |
| Difference in change in provision for unearned premiums - net | (2,889,880) | 33,009,909 |
| Tax effect of PFRS adjustments | 20,594,307 | (4,590,653) |
| Statutory net income | P77,546,925 | P225,034,932 |

30. Contingent Liabilities

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no material liabilities are likely to result.

31. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by RR15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year:

Output VAT

The Company is a VAT-registered company with output VAT declaration of P427,319,821 for the year based on the amount reflected in the Premium Income account of P3,560,998,509.

The Company has zero-rated sales amounting to P644,451,252.

Input VAT

The amount of VAT Input taxes claimed are broken down as follows:

| | |
|---|--------------------|
| At January 1, 2017 | P13,134,530 |
| Current year's domestic purchases/payments for: | |
| Purchase of goods | 4,868,920 |
| Payment for services | 169,013,127 |
| | 173,882,047 |
| Total Input VAT claimed during the year | 170,075,423 |
| At December 31, 2017 | P16,941,154 |



Documentary Stamp Tax (DST)

The DST paid on the following transactions are:

| <u>Transaction</u> | <u>DST</u> |
|---|--------------|
| Policies of insurance upon property | ₱492,799,915 |
| Compulsory third party liability (CTPL) | 1,079,997 |
| Accident and health | 621,200 |

Other Taxes and Licenses

Details of other taxes, local and national, including real estate taxes, license and permit fees follow:

| | |
|---------------------------------------|-------------------|
| <u>Local:</u> | |
| License and permit fees | ₱571,308 |
| Real estate taxes | — |
| | <u>571,308</u> |
| <u>National:</u> | |
| Fees paid to the Insurance Commission | 2,420,608 |
| Tax on sale of equity securities | 1,216,564 |
| Licenses of agents | 718,030 |
| Fringe benefit taxes | 629,155 |
| LTO car registration fees | 204,949 |
| BIR annual registration | 10,500 |
| DST on sale of real estate property | 2,488 |
| Others | 1,283,760 |
| | <u>6,486,054</u> |
| | <u>₱7,057,362</u> |

Other taxes paid are:

| | |
|----------------------|--------------------|
| Fire service tax | ₱14,319,131 |
| Local government tax | 11,116,210 |
| Premium tax | 2,873,115 |
| | <u>₱28,308,456</u> |

Withholding Taxes

The amount of withholding taxes paid/accrued in 2017 amounted to:

| | |
|--|---------------------|
| Expanded withholding taxes | ₱98,446,796 |
| Withholding taxes on compensation and benefits | 33,741,638 |
| Final withholding taxes | 1,839,634 |
| | <u>₱134,028,068</u> |

Tax Contingencies

The Company is under preliminary tax audit for taxable years 2012, 2013, 2014 and 2015. The Company has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

