# FPG Insurance Co., Inc.

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

A member firm of Ernst & Young Global Limited

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BOA/PRC Reg. No. 0001,
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November 6, 2018, valid until November 5, 2021

# 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, 2018 and 2017, 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, 2018 and 2017, 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.

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**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 30 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.

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SEC Accreditation No. 1566-A (Group A),
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January 28, 2019, valid until January 27, 2022
PTR No. 7332525, January 3, 2019, Makati City

March 14, 2019

## FPG INSURANCE CO., INC.
## STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **ASSETS** | | |
| **Cash and Cash Equivalents** (Note 4) | **₱808,740,044** | ₱826,660,504 |
| **Short-term Investments** (Note 4) | **1,336,400** | 1,326,311 |
| **Insurance Receivables** (Note 5) | **1,862,994,926** | 1,455,814,077 |
| **Financial Assets at Fair Value Through Profit or Loss (FVTPL)** (Note 6) | **419,425,785** | – |
| **Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)** (Note 6) | **373,932,581** | – |
| **Financial Assets at Amortized Cost** (Note 6) | **981,956,882** | – |
| **Available-for-sale Financial Assets** (Note 6) | **–** | 1,695,682,839 |
| **Loans and Receivables** (Note 7) | **110,423,602** | 109,198,081 |
| **Reinsurance Assets** (Notes 8 and 14) | **1,617,844,231** | 1,374,056,192 |
| **Accrued Interest Income** (Note 9) | **13,158,064** | 11,318,198 |
| **Deferred Acquisition Costs** (Note 10) | **350,090,841** | 303,531,430 |
| **Investment Properties** (Note 11) | **2,745** | 2,745 |
| **Property and Equipment** (Note 12) | **75,881,372** | 71,827,067 |
| **Deferred Tax Assets** (Note 24) | **46,533,238** | 20,737,490 |
| **Net Pension Asset** (Note 23) | **–** | 16,745,551 |
| **Other Assets** (Note 13) | **298,416,390** | 295,751,937 |
| | **₱6,960,737,101** | ₱6,182,652,422 |
| **LIABILITIES AND EQUITY** | | |
| **LIABILITIES** | | |
| **Insurance Contract Liabilities** (Note 14) | **₱3,607,393,195** | ₱3,228,445,463 |
| **Insurance Payables** (Note 15) | **1,463,580,549** | 1,079,131,727 |
| **Accounts Payable and Accrued Expenses** (Note 16) | **792,519,877** | 640,896,342 |
| **Deferred Reinsurance Commissions** (Note 10) | **74,613,136** | 62,083,222 |
| **Net Pension Liability** (Note 23) | **7,946,941** | – |
| | **5,946,053,698** | 5,010,556,754 |
| **EQUITY** | | |
| Capital Stock (Note 17) | **350,000,000** | 350,000,000 |
| Net Unrealized Gain on Available-for-sale Financial Assets (Note 6) | **–** | 68,946,012 |
| Net Unrealized Gain on Financial Assets at FVOCI (Note 6) | **4,075,126** | – |
| Remeasurement Losses on Defined Benefit Obligation (Note 23) | **(9,122,267)** | (476,784) |
| Retained Earnings | | |
| Unappropriated | **657,225,429** | 741,121,325 |
| Appropriated (Note 17) | **12,505,115** | 12,505,115 |
| | **1,014,683,403** | 1,172,095,668 |
| | **₱6,960,737,101** | ₱6,182,652,422 |

*See accompanying Notes to Financial Statements.*

## FPG INSURANCE CO., INC.
## STATEMENTS OF INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Gross earned premiums on insurance contracts (Notes 14 and 18) | **₱5,082,968,819** | ₱4,590,905,281 |
| Reinsurers' share of gross earned premiums on insurance contracts (Notes 14 and 18) | **2,285,463,482** | 2,249,431,008 |
| **NET INSURANCE EARNED PREMIUMS** | **2,797,505,337** | 2,341,474,273 |
| Commission income (Note 10) | **201,370,387** | 191,679,219 |
| Investment income (Note 19) | **87,015,519** | 87,495,277 |
| Gain on sale of financial assets (Note 6) | **11,759,553** | 74,374,957 |
| Gain on sale of property and equipment (Note 12) | **455,801** | 78,671 |
| Foreign exchange gain (loss) - net | **303,099** | (20,022,746) |
| **OTHER INCOME** | **300,904,359** | 333,605,378 |
| **TOTAL INCOME** | **3,098,409,696** | 2,675,079,651 |
| Gross insurance contract benefits and claims paid (Notes 14 and 20) | **2,273,646,696** | 1,506,671,109 |
| Reinsurers' share of gross insurance contract benefits and claims paid (Notes 14 and 20) | **(573,628,391)** | (324,449,575) |
| Gross change in insurance contract liabilities (Notes 14 and 20) | **157,456,995** | 603,531,098 |
| Reinsurers' share of gross change in insurance contract liabilities (Notes 14 and 20) | **(186,440,826)** | (561,372,916) |
| **NET INSURANCE BENEFITS AND CLAIMS** | **1,671,034,474** | 1,224,379,716 |
| **EXPENSES** | | |
| Commission expense (Note 10) | **804,754,330** | 687,290,574 |
| Operating expenses (Note 21) | **654,013,486** | 593,253,481 |
| Market valuation losses on financial assets at FVTPL (Note 6) | **50,280,972** | – |
| Interest expense (Note 15) | **1,035,978** | 963,460 |
| Provision for impairment loss on AFS financial assets (Note 6) | **–** | 19,399,552 |
| **TOTAL EXPENSES** | **1,510,084,766** | 1,300,907,067 |
| **TOTAL BENEFITS, CLAIMS AND OTHER EXPENSES** | **3,181,119,240** | 2,525,286,783 |
| **INCOME (LOSS) BEFORE INCOME TAX** | **(82,709,544)** | 149,792,868 |
| **INCOME TAX EXPENSE** (Note 24) | **5,859,464** | 24,192,561 |
| **NET INCOME (LOSS)** | **(₱88,569,008)** | ₱125,600,307 |

*See accompanying Notes to Financial Statements.*

## FPG INSURANCE CO., INC.
## STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **NET INCOME (LOSS)** | **(₱88,569,008)** | ₱125,600,307 |
| **OTHER COMPREHENSIVE LOSS** | | |
| *Items that will be reclassified to profit or loss in subsequent periods:* | | |
| Unrealized fair value gain (loss) (Note 6) | **(38,589,115)** | 25,119,573 |
| Transfers to profit and loss | **(11,701,481)** | (54,975,405) |
| | **(50,290,596)** | (29,855,832) |
| *Items that will not be reclassified to profit or loss in subsequent periods:* | | |
| Remeasurement gains (losses) on defined benefit obligation (Note 23) | **(12,350,690)** | 20,227,312 |
| Tax effect | **3,705,207** | (6,068,194) |
| | **(8,645,483)** | 14,159,118 |
| Total other comprehensive loss | **(58,936,079)** | (15,696,714) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **(₱147,505,087)** | ₱109,903,593 |

*See accompanying Notes to Financial Statements.*

# FPG INSURANCE CO., INC.

## STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

| | Capital stock (Note 17) | Revaluation Reserve on Available-for-Sale Financial Assets (Note 6) | Net Unrealized Gain on Financial Assets at FVOCI (Note 6) | Remeasurement gains (losses) on Defined benefit obligation (Note 23) | Retained earnings | | Total |
|---|---|---|---|---|---|---|---|
| | | | | | Unappropriated | Appropriated (Note 17) | |
| As of January 1, 2018 | | | | | | | |
| As previously reported | **₱350,000,000** | **₱68,946,012** | **₱–** | **(₱476,784)** | **₱741,121,325** | **₱12,505,115** | **₱1,172,095,668** |
| Effect of the adoption of Philippine Financial Reporting Standards (PFRS) 9, *Financial Instruments* (Note 2) | **–** | **(68,946,012)** | **54,365,722** | **–** | **4,673,112** | **–** | **(9,907,178)** |
| As restated | **350,000,000** | **–** | **54,365,722** | **(476,784)** | **745,794,437** | **12,505,115** | **1,162,188,490** |
| Net loss for the year | **–** | **–** | | **–** | **(88,569,008)** | **–** | **(88,569,008)** |
| Other comprehensive loss | **–** | **–** | **(50,290,596)** | **(8,645,483)** | **–** | **–** | **(58,936,079)** |
| Total comprehensive loss for the year | **–** | **–** | **(50,290,596)** | **(8,645,483)** | **(88,569,008)** | **–** | **(147,505,087)** |
| As of December 31, 2018 | **₱350,000,000** | **₱–** | **₱4,075,126** | **(₱9,122,267)** | **₱657,225,429** | **₱12,505,115** | **₱1,014,683,403** |
| | | | | | | | |
| As of January 1, 2017 | ₱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 |

*See accompanying Notes to Financial Statements.*

## FPG INSURANCE CO., INC.
## STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income (loss) before income tax | **(₱82,709,544)** | ₱149,792,868 |
| Adjustments for: | | |
| Interest income (Note 19) | **(79,214,811)** | (79,716,253) |
| Depreciation and amortization (Notes 12 and 21) | **38,555,854** | 30,934,218 |
| Market valuation losses on financial assets at FVTPL (Note 6) | **50,280,972** | – |
| Retirement expense (Note 23) | **12,341,802** | 13,927,044 |
| Gain on sale of: | | |
| Investments in financial assets at FVOCI (Note 6) | **(11,759,553)** | – |
| Property and equipment (Note 12) | **(455,801)** | (78,671) |
| Available-for-sale financial assets (Note 6) | **–** | (74,374,957) |
| Provision for credit loss (Note 21) | **11,740,914** | 1,682,364 |
| Dividend income (Note 19) | **(7,800,708)** | (7,779,024) |
| Interest expense (Note 15) | **1,035,978** | 963,460 |
| Provision for impairment loss on AFS financial assets (Note 6) | **–** | 19,399,552 |
| Operating income (loss) before working capital changes | **(67,984,897)** | 54,750,601 |
| Changes in operating assets and liabilities | | |
| Increase in: | | |
| Insurance receivables | **(435,294,949)** | (74,641,390) |
| Short-term investments | **(10,096)** | (19,744) |
| Loans and receivables | **(1,264,214)** | (10,900,555) |
| Reinsurance assets | **(243,788,039)** | (526,357,810) |
| Deferred acquisition costs | **(46,559,411)** | (68,072,606) |
| Other assets | **(2,671,520)** | (10,556,092) |
| Increase in: | | |
| Insurance contract liabilities | **378,947,732** | 682,732,503 |
| Insurance payables | **384,448,822** | 28,531,674 |
| Deferred reinsurance commissions | **12,529,914** | 2,314,796 |
| Accounts payable and accrued expenses | **151,623,535** | 116,063,890 |
| Net cash generated from operations | **129,976,877** | 193,845,267 |
| Interest paid | **(1,035,978)** | (963,460) |
| Income tax paid | **(22,581,340)** | (25,179,168) |
| Contribution to retirement fund | **–** | (31,700,168) |
| Net cash provided by operating activities | **106,359,559** | 136,002,471 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale of: | | |
| Investments in financial assets at FVTPL (Note 6) | **372,015,840** | – |
| Investments in financial assets at FVOCI (Note 6) | **24,468,462** | – |
| Available-for-sale financial assets (Note 6) | **–** | 630,809,807 |
| Property and equipment (Note 12) | **1,687,329** | 731,174 |
| Interest received | **78,778,604** | 80,006,040 |
| Dividends received (Note 19) | **7,800,708** | 7,779,024 |

(Forward)

| | Years Ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Acquisitions of: | | |
| Investments in financial assets at FVTPL (Note 6) | **(₱342,551,551)** | ₱– |
| Investments in financial assets at FVOCI (Note 6) | **(222,637,724)** | – |
| Available-for-sale financial assets (Note 6) | **–** | (913,177,236) |
| Property and equipment (Note 12) | **(43,841,687)** | (58,246,747) |
| Cash used in investing activities | **(124,280,019)** | (252,097,938) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(17,920,460)** | (116,095,467) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **826,660,504** | 942,755,971 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱808,740,044** | ₱826,660,504 |

*See accompanying 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 registered office address of the Company is at 6th Floor, Zuellig Building, Makati Avenue corner Paseo de Roxas, Makati City.

The accompanying financial statements were authorized for issue by the BOD on March 14, 2019.

## 2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI)/available-for-sale (AFS) financial assets that have been measured at fair value.

The financial statements are presented in Philippine peso (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 compliance with Philippine Financial Reporting Standards (PFRSs).

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 and amended accounting standards starting January 1, 2018. Adoption of these new and amended accounting standards did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- PFRS 9, *Financial Instruments*
  This standard replaces Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  The Company applied PFRS 9 retrospectively, with an initial application date on January 1, 2018. The Company has not restated the comparative information, which continued to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other components of equity.

  PFRS 9 does not change the general principles of how an entity accounts for effective hedges. Applying the hedging requirements of PFRS 9 did not have a significant impact on the Company's financial statements.

  (a) Classification and Measurement
  Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through other comprehensive income (OCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

  The assessment of the Company's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

  (b) Expected Credit Loss
  The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

(c) Transition to PFRS 9
A reconciliation between the carrying amounts of financial assets under PAS 39 classification to the balances reported under PFRS 9 classification as at January 1, 2018 is presented below. The Company's adoption of PFRS 9 has no impact on its financial liabilities.

| | | | PFRS 9 | |
|---|---|---|---|---|
| | Note | December 31, 2017 as previously reported | Classification and Measurement | ECL |
| **ASSETS** | | | | |
| Cash and cash equivalents* | (a and d) | ₱826,493,704 | ₱– | (₱2,893) |
| Short-term investments | (a and d) | 1,326,311 | – | (7) |
| Insurance receivables | (a and d) | 1,455,814,077 | – | (16,801,794) |
| AFS financial assets | (b) | 1,695,682,839 | (1,695,682,839) | – |
| Financial asset at FVOCI | (b) | – | 413,974,064 | (345,926) |
| Financial asset at amortized cost | (b and d) | – | 785,649,189 | (732,796) |
| Financial asset at FVTPL | (c) | – | 498,333,370 | – |
| Loans and receivables | (a and d) | 109,198,081 | – | (12,138) |
| Deferred tax assets | (d) | 20,737,490 | – | 5,368,666 |
| **EQUITY** | | | | |
| Reserve for fluctuation on available-for-sale financial assets | (b and d) | 68,946,012 | (14,926,216) | 345,926 |
| Retained earnings | (b and d) | 753,626,440 | 17,200,000 | (12,526,888) |

**Excluding cash on hand amounting to ₱166,800.*

*Adoption of PFRS 9, Classification and Measurement*
Impact of classification and measurement resulted in the following:

| Note | Description |
|---|---|
| A | Cash and cash equivalents, Short-term investments, Insurance receivables and Loans and receivables previously classified as 'loans and receivables' were reclassified to 'financial assets at amortized cost'. |
| B | Quoted debt instruments previously classified as AFS financial assets are now classified and measured either as debt instruments at FVOCI and at amortized cost. This resulted in a reclassification of unrealized gain amounting to ₱17,200,000 from OCI to Retained earnings, and derecognition of net unrealized loss previously presented under OCI amounting to ₱2,273,784. |
| C | Equity investments previously classified as AFS financial assets are now classified and measured as equity instruments at FVTPL. |

*Adoption of PFRS 9, ECL*
Impact of adoption of ECL methodology resulted in the following:

| Note | Description |
|---|---|
| D | Adoption of ECL under PFRS 9 resulted in net increase in total Allowance for credit losses amounting to ₱17,549,628, increase in Deferred tax asset of ₱5,368,666 and decrease in Net unrealized gain on financial assets in OCI of ₱345,926 which accordingly resulted in net decrease in Retained Earnings amounting to ₱12,526,888. |

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  PFRS 15 requires entities to exercise judgment, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

  The Company adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to its main contract as at January 1, 2018. Likewise, the comparative information was not restated and continues to be consistent under PAS 18.

  The adoption of PFRS 15 did not have a material impact on the Company's financial position, results of operations and cash flows since the Company's revenue streams (i.e. Net insurance premium, Commission income, Investment income and Gain on sale of financial assets and property and equipment) are governed by other standards.

  As a result, there is no cumulative effect to the opening balance of retained earnings of initially applying PFRS 15 at the date of initial application.

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

  The amendments does not have an impact on the Company's financial statements as the Company does not have share-based payments.

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the

overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

During 2018, the Company performed an assessment of the amendments and reached the conclusion that as of December 31, 2018, its activities are predominantly connected with insurance. However, the Company opted to adopt PFRS 9 for annual periods beginning January 1, 2018.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. Retrospective application is required.

  The amendments does not have an impact on the Company's financial statements since the Company does not have any associate or joint venture.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its financial statements upon adoption of this interpretation.

**Significant Accounting Policies**

Foreign Currency Transactions and Translations
Transactions in foreign currencies are initially recorded at the foreign currency rate prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange prevailing at the reporting date. Non-monetary 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.

Insurance 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
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 in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash a with original maturities of three months or less from the date of acquisition and 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.

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

Financial Instruments - Initial Recognition and Subsequent Measurement

*Date of recognition*
Financial instruments within the scope of PFRS 9 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 using the settlement date accounting.

*Initial measurement of financial instruments*
*Prior to January 1, 2018*
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 (FVTPL), 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 FVTPL, AFS investments, and loans and receivables. Financial liabilities can be classified as at FVTPL 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, 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.

*Beginning January 1, 2018*
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Insurance receivables are measured at the insurance contract.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

*Subsequent measurement*
*Prior to January 1, 2018*
*Financial assets or financial liabilities at FVTPL*
This category consists of financial assets or financial liabilities that are held for trading or designated by management as at FVTPL 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 FVTPL 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, the Company has not classified any of its financial assets or financial liabilities as at FVTPL.

*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, 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 FVTPL. 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 FVTPL, 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 FVTPL 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).

<u>Beginning January 1, 2018</u>
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments),
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments),
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments), and

- Financial assets at fair value through profit or loss.

*Financial assets at amortized cost (debt instruments)*
The Company measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

In 2018, the Company's financial assets at amortized cost includes 'cash and cash equivalents', 'insurance receivables', 'loans and receivables', and 'hold to collect investments'.

*Financial assets at fair value through OCI (debt instruments)*
The Company measures financial assets at fair value through OCI if both of the following conditions are met:
- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

In 2018, the Company's financial assets at fair value through OCI includes investments in quoted debt instruments.

*Financial assets at fair value through OCI (equity instruments)*
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

In 2018, the Company has not classified any of its equity investments to be measured at fair value through OCI.

*Financial assets at fair value through profit or loss*
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes listed equity investments which the Company had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognized as other income in the statement of profit or loss when the right of payment has been established.

The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at amortized cost*
This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as finance costs in the statement of profit or loss.

The Company's financial liabilities at amortized cost include 'accounts payable and accrued expenses', 'interest payable', 'short-term borrowings', 'loans payable' and 'other noncurrent liability'.

*Other financial liabilities*
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

*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. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Impairment of Financial Assets and Financial Liabilities

*Prior to January 1, 2018*

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.

*Beginning January 1, 2018*
The Company recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For insurance receivables and loans and receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at amortized cost and fair value through OCI, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the internal credit rating of the debt instrument. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition of Financial Assets and Financial Liabilities

*Financial asset*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial liability*

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

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 Nonfinancial 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 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 income tax 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 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 actuary.

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.

Additional paid-in capital includes any premiums received in excess of par value on the issuance of capital stock.

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.

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 the economic benefits will flow to the Company and the amount of revenue can be reliably measured. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The Company has concluded that it is acting as principal in all of its revenue arrangements. 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 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 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, 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
Expenses are recognized when there is a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably. Operating expenses and interest expense, except for lease agreements, are recognized in the statement of income 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 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 reporting date 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 liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 reporting date (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements, when material.

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. The Company intends to adopt these pronouncements when they become effective. Adoption of these pronouncements is not expected to have any significant impact on the financial statements of the Company unless otherwise indicated.

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*
  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company is still assessing the impact of adopting this standard.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  The Company is currently assessing the impact of adopting this standard.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes,* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. This interpretation is not relevant to the Company because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

  *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Company because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  These amendments have no impact on the financial statements of the Company.

*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*
  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

*Effective beginning on or after January 1, 2021*

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

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

  The Company is still assessing the impact of adopting this standard.

*Deferred effectivity*

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

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

  These amendments have no impact on the financial statements of the Company.

## 3. Significant Accounting Judgments and Estimates

The preparation of the financial statements necessitates the use of judgments and estimates. These judgments and estimates affect the reported amounts of assets and liabilities and contingent liabilities at the reporting period date 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.

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.

<u>Judgments</u>

*a. 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.

*b. 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 lease agreements do not provide for an option to purchase or transfer ownership at the end of the lease term.

As of December 31, 2018 and 2017, the future minimum rental payable under non-cancellable operating lease amounted to ₱123,106,750 and ₱171,933,986, respectively (see Note 27).

Rent expense for the year ended 2018 and 2017 amounted to ₱48,048,549 and ₱38,105,772, respectively (see Note 21).

*c. Classification of financial assets*
<u>Evaluation of business model in managing financial assets</u>
The Company manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely arising from policyholders' claims, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

The Company developed business models which reflect how it manages its portfolio of financial instruments. The Company's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Company) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Company evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Company.

In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Company considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a hold to collect business model if the Company can explain the reasons for those sales and why those sales do not reflect a change in the Company's objective for the business model.

Testing the cash flow characteristics of financial assets
In determining the classification of financial assets under PFRS 9, the Company assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

*d. 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.

Estimates

*a. Impairment of financial assets*
*Prior to January 1, 2018*
The Company treats AFS equity investments as impaired when there has been a significant or prolonged declined 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 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.

*Beginning January 1, 2018*
The Company uses a provision matrix to calculate ECLs for financial assets for insurance receivables and loans and receivables. The provision matrix is initially based on the Company's historical observed default rates.

For investments classified and measured at amortized cost and FVOCI, the Company uses the available historical default rate based on the credit rating of the specific investments.

The Company will adjust the historical default rates with forward-looking information, if any. For instance, if forecast economic conditions (i.e., inflation and gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the industry, the historical default rates are adjusted. At every reporting date, the historical default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

As of December 31, 2018, expected credit losses for cash and cash equivalents and short-term investments amounted to ₱7,067 and ₱7, respectively (see Note 4).

Allowance for credit losses for insurance receivables amounted to ₱41,051,417 and ₱12,937,317 as of December 31, 2018 and 2017, respectively (see Note 5).

In 2018, the Company has recognized ECL on its financial assets at FVOCI amounting to ₱58,072 (see Note 6). In 2017, the Company has recognized impairment loss on its financial assets at FVTPL amounting to ₱19,399,552 (see Note 6).

Allowance for credit losses for loans and receivables amounted to ₱52,038,694 and ₱52,000,000 as of December 31, 2018 and 2017, respectively (see Note 7).

*b. 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 reporting date 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 ₱1,471,500,349 and ₱1,314,043,354 as of December 31, 2018 and 2017, respectively (see Note 14).

c. *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.

As of December 31, 2018, the total fair value of financial assets at FVTPL and FVOCI amounted to ₱793,358,366. As of December 31, 2017, the fair value of AFS financial assets amounted to ₱1,695,682,839 (see Note 6).

d. *Pension liability*
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, future salary increase rates, mortality rates, and future pension increases. 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 reporting date. Refer to Note 23 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 under other comprehensive income in the statements of comprehensive income. 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 obligation amounted to ₱7,946,941 as of December 31, 2018 and net pension asset of ₱16,745,551 as of December 31, 2017 (see Note 23).

e. *Recognition of deferred tax assets*
Deferred tax assets are recognized for all temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The deferred tax assets recognized as of December 31, 2018 and 2017 amounted to ₱46,533,238 and ₱20,737,490, respectively (see Note 24).

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

Cash and Cash Equivalents
This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Cash on hand | **₱171,800** | ₱166,800 |
| Cash in banks | **408,717,032** | 206,064,667 |
| Cash equivalents | **399,851,212** | 620,429,037 |
| | **₱808,740,044** | ₱826,660,504 |

Cash and cash equivalents is net of allowance for expected credit losses amounting to ₱7,067 as of December 31, 2018.

As of December 31, 2018, allowance for expected credit losses for cash and cash equivalents follows:

| | 2018 |
|---|---|
| Balance at beginning of year | |
| As previously reported | ₱– |
| Transition adjustment (Note 2) | 2,893 |
| As restated | 2,893 |
| Provision for the period (Note 21) | 4,174 |
| Balance at end of year | ₱7,067 |

Cash in banks earns interest at the respective bank's deposit rates. It earns interest ranging from 0.10% to 0.50% in 2018 and 2017.

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 ranging 0.50% to 4.50% in 2018 and 2017.

Cash on hand pertains to administrative petty cash and revolving fund used for payment of operating expenses, commissions, and claims payment for the branches and satellite offices.

Short-term Investments
Short-term investments is net of expected credit loss amounting to ₱7 as of December 31, 2018 and 2017 (see Note 21).

Short-term investments pertain to time deposits with terms of more than 90 days but less than 360 days and earn interest at 1.25% in 2018 and 2017.

Interest income earned from cash and cash equivalents and short-term investments amounted to ₱7,883,856 and ₱11,234,265 in 2018 and 2017, respectively (see Note 19).

## 5. Insurance Receivables

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Due from: | | |
| Brokers and agents | **1,432,299,085** | 1,271,840,526 |
| Ceding companies and reinsurers | **309,309,877** | 60,875,026 |
| Reinsurance recoverable on paid losses | **162,437,381** | 136,035,842 |
| | **1,904,046,343** | 1,468,751,394 |
| Less: Allowance for credit losses | **41,051,417** | 12,937,317 |
| | **₱1,862,994,926** | ₱1,455,814,077 |

Due from brokers and agents are premiums collected by the brokers from policyholders. Due from ceding companies and reinsurers are premium-related balances due from insurance companies seeking reinsurance from the Company.

Reinsurance recoverable on paid losses pertains to recoveries of the Company for policies where claims payment was made from facultative and treaty reinsurers.

All insurance receivables are due within one year or less.

The following table shows aging information of insurance receivables balances:

| | **2018** | | | | | |
|---|---|---|---|---|---|---|
| | **1 to 90 days** | **91 to 120 days** | **121 to 150 days** | **151 to 210 days** | **> 210 days** | **Total** |
| **Due from brokers and agents** | **₱1,342,364,969** | **₱12,068,335** | **₱6,913,569** | **₱50,824,339** | **₱20,127,873** | **₱1,432,299,085** |
| **Due from ceding companies and reinsurers** | **1,358,131** | **12,286,475** | **1,370,544** | **15,823,477** | **278,471,250** | **309,309,877** |
| **Reinsurance recoverable on paid losses** | **60,931** | **107,807** | **241,944** | **1,098,557** | **160,928,142** | **162,437,381** |
| | **₱1,343,784,031** | **₱24,462,617** | **₱8,526,057** | **₱67,746,373** | **₱459,527,265** | **₱1,904,046,343** |

| | 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 |

As of December 31, 2018 and 2017, allowance for credit losses for insurance receivables as follows:

| | **2018** | | | |
|---|---|---|---|---|
| | **Due from brokers and agents** | **Due from ceding companies and reinsurers** | **Reinsurance recoverable on paid losses** | **Total** |
| Balance at beginning of year | | | | |
| As previous reported | **₱7,275,995** | **₱–** | **₱5,661,322** | **₱12,937,317** |
| Transition adjustment (Note 2) | **7,795,004** | **1,732,776** | **7,274,014** | **16,801,794** |
| As restated | **15,070,999** | **1,732,776** | **12,935,336** | **29,739,111** |
| Provision (Note 21) | **4,488,224** | **6,394,713** | **429,369** | **11,312,306** |
| Balance at end of year | **₱19,559,223** | **₱8,127,489** | **₱13,364,705** | **₱41,051,417** |

| | 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) (Note 21) | (713,106) | – | 2,395,470 | 1,682,364 |
| Balance at end of year | ₱7,275,995 | ₱– | ₱5,661,322 | ₱12,937,317 |

6. **Investments in Financial Assets**

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

| | **2018** | 2017 |
|---|---|---|
| Investment in securities | | |
| Financial assets at FVTPL | **₱419,425,785** | ₱– |
| Financial assets at FVOCI | **373,932,581** | – |
| Financial assets at amortized cost | **981,956,882** | – |
| AFS financial assets | – | 1,695,682,839 |
| | **₱1,775,315,248** | ₱1,695,682,839 |

As of December 31, 2018, the investment in securities included in each of the categories above are detailed as follows:

| | FVTPL | FVOCI | Amortized cost |
|---|---|---|---|
| Equity securities | | | |
| Listed common shares | ₱379,105,785 | ₱– | ₱– |
| Club shares | 25,650,000 | – | – |
| Unit Investment Fund | 14,650,000 | – | – |
| Unlisted shares | 20,000 | – | – |
| Debt securities | | | |
| Government treasury bonds/ bills | – | 373,932,581 | 931,536,522 |
| Corporate bonds | – | – | 51,492,962 |
| | 419,425,785 | 373,932,581 | 983,029,484 |
| Less: Allowance for impairment losses | – | – | 1,072,602 |
| | ₱419,425,785 | ₱373,932,581 | ₱981,956,882 |

As of December 31, 2017, the AFS financial investments are detailed as follows:

| | |
|---|---|
| Equity securities | |
| Listed common shares (net of impairment) | ₱431,103,370 |
| Club shares | 18,400,000 |
| Unit Investment Fund | 48,810,000 |
| Unlisted shares | 20,000 |
| Debt securities | |
| Government treasury bonds/ bills | 1,197,349,469 |
| | ₱1,695,682,839 |

The carrying values of investment in securities have been determined as follows:

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | | |
| As previously reported | **₱1,695,682,839** | ₱1,389,963,937 |
| Transition adjustment (Note 2) | **2,273,784** | – |
| As restated | **1,697,956,623** | 1,389,963,937 |
| Additions | **565,189,275** | 913,177,236 |
| Disposals | **(396,484,302)** | (630,809,807) |
| Net amortization of bond premium | **(1,403,659)** | (1,768,100) |
| Market valuation losses on financial assets at FVTPL | **(50,280,972)** | – |
| Unrealized fair value loss for financial assets at FVOCI | **(38,589,115)** | – |
| Unrealized fair value gain for AFS financial assets | **–** | 25,119,573 |
| | **1,776,387,850** | 1,695,682,839 |
| Less: Allowance for impairment losses | **1,072,602** | – |
| Balance at end of year | **₱1,775,315,248** | ₱1,695,682,839 |

The costs or amortized cost of investment in securities are as follows:

| | **2018** | 2017 |
|---|---|---|
| Equity securities | | |
| Listed common shares | **₱426,052,405** | ₱420,181,492 |
| Club shares | **1,200,000** | 1,200,000 |
| Unit Investment Fund | **14,650,000** | 48,810,000 |
| Unlisted shares | **20,000** | 20,000 |
| Debt securities | | |
| Government treasury bonds/bills | **1,301,797,976** | 1,156,525,335 |
| Corporate bonds | **51,492,962** | – |
| | **1,795,213,343** | 1,626,736,827 |
| Less: Allowance for impairment losses | **1,072,602** | – |
| | **₱1,794,140,741** | ₱1,626,736,827 |

A reconciliation of the fair value measurement of investment in financial assets at FVOCI/ Available-for-sale financial assets is shown below:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | | |
| As previously reported | **₱68,946,012** | ₱98,801,844 |
| Transition adjustment (Note 2) | **(14,580,290)** | – |
| As restated | **54,365,722** | 98,801,844 |
| Unrealized fair value gain (loss) | **(38,589,115)** | 25,119,573 |
| Transferred to profit and loss | | |
| Gain on sale | **(11,759,553)** | (74,374,957) |
| Impairment loss | **58,072** | 19,399,552 |
| Balance at end of year | **₱4,075,126** | ₱68,946,012 |

In 2018, the amount of market losses due to revaluation of investment in listed common shares amounting to ₱50,280,972 were recorded in profit or loss. In 2017, market gains due to revaluation of investments in listed common shares amounting to ₱28,121,878 were recorded in OCI.

Adoption of ECL in the impairment of financial assets at FVOCI, before market valuation, resulted in credit loss amounting to ₱58,072 charged to profit or loss (see Note 21).

As of December 31, 2018, allowance for impairment losses for financial assets at amortized cost follows:

| | 2018 |
|---|---|
| Balance at beginning of year | |
| As previously reported | ₱– |
| Transition adjustment (Note 2) | 732,796 |
| As restated | 732,796 |
| Provision for the period (Note 21) | 339,806 |
| Balance at end of year | ₱1,072,602 |

As of December 31, 2018 and 2017, government securities (recorded under “financial assets at amortized cost”) deposited with the IC in accordance with the provision of the Insurance Code (the Code) amounted to ₱145,000,000. These deposited government securities serve as security for the benefit of policyholders and creditors of the Company.

Interest income earned from financial assets at FVOCI and amortized cost amounted to ₱71,330,955 in 2018. Interest earned from AFS financial assets amounted to ₱68,481,988 in 2017 (see Note 19).

Dividend income from financial assets at FVTPL amounted to ₱7,800,708 in 2018. Dividend income from AFS financial assets amounted to ₱7,779,024 in 2017 (see Note 19).

## 7. Loans and Receivables

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Accounts receivable | **₱156,834,857** | ₱154,528,131 |
| Employee receivables | **5,627,439** | 6,669,950 |
| | **162,462,296** | 161,198,081 |
| Less: Allowance for credit losses | **52,038,694** | 52,000,000 |
| | **₱110,423,602** | ₱109,198,081 |

Accounts receivable includes receivable from Mercator Holdings and Management Corporation, a related party (see Note 26), amounting to ₱147,071,023 and ₱146,821,468 as of December 31, 2018 and 2017, respectively, due to sale on account of investment property.

The following table shows aging information of loans and receivables:

| | **2018** | | | | | |
|---|---|---|---|---|---|---|
| | **1 to 30 days** | **31 to 60 days** | **61 to 120 days** | **121 to 180 days** | **> 180 days** | **Total** |
| **Accounts receivable** | **₱876,770** | **₱510,438** | **₱1,751,016** | **₱477,592** | **₱153,219,041** | **₱156,834,857** |
| **Employee receivables** | **781,521** | **1,217,638** | **1,499,189** | **1,393,275** | **735,816** | **5,627,439** |
| | **₱1,658,291** | **₱1,728,076** | **₱3,250,205** | **₱1,870,867** | **₱153,954,857** | **₱162,462,296** |

| | 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 | ₱141,463,534 | ₱154,528,131 |
| 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 | ₱143,792,602 | ₱161,198,081 |

Movements in the allowance for expected credit losses as of December 31, 2018 and 2017 follows:

| | **2018** | 2017 |
|---|---|---|
| Balance at beginning of year | | |
| As previously reported | **₱52,000,000** | ₱52,000,000 |
| Transition adjustment | **12,138** | – |
| As restated | **52,012,138** | 52,000,000 |
| Provision for the period (Note 21) | **26,556** | – |
| Balance at end of year | **₱52,038,694** | ₱52,000,000 |

## 8. Reinsurance Assets

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Reinsurance recoverable on unpaid losses (Note 14) | **₱937,482,059** | ₱751,041,233 |
| Deferred reinsurance premiums (Note 14) | **680,362,172** | 623,014,959 |
| | **₱1,617,844,231** | ₱1,374,056,192 |

Deferred reinsurance premiums are reinsurance premiums ceded that pertain to the unexpired periods at reporting date.

## 9. Accrued Interest Income

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Accrued interest income from: | | |
| Financial assets at FVOCI | **₱4,057,020** | ₱– |
| Financial assets at amortized cost | **9,079,567** | – |
| Cash and cash equivalents and short-term investments | **21,477** | 12,593 |
| AFS debt securities | **–** | 11,305,605 |
| | **₱13,158,064** | ₱11,318,198 |

## 10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

*Deferred Acquisition Costs*

The rollforward analysis of this account follows:

| | **2018** | 2017 |
|---|---|---|
| At January 1 | **₱303,531,430** | ₱235,458,824 |
| Costs deferred during the year | **851,313,741** | 755,363,180 |
| Amortization during the year | **(804,754,330)** | (687,290,574) |
| At December 31 | **₱350,090,841** | ₱303,531,430 |

Deferred acquisition cost pertains to the portion of the commission expense that relates to the unexpired periods of policies at reporting date.

*Deferred Reinsurance Commissions*

The rollforward analysis of this account follows:

| | **2018** | 2017 |
|---|---|---|
| At January 1 | **₱62,083,222** | ₱59,768,426 |
| Income deferred during the year | **213,900,301** | 193,994,015 |
| Amortization during the year | **(201,370,387)** | (191,679,219) |
| At December 31 | **₱74,613,136** | ₱62,083,222 |

Deferred reinsurance commissions pertain to the portion of commission income that relates to the unexpired periods of the policies at reporting date.

## 11. 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 (Mercator) 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. Consequently, the Company recognized ₱52,000,000 provision for credit losses on the receivable from Mercator due to lower of market value over zonal value of properties which affects the recoverability of the receivables.

As of December 31, 2018 and 2017, 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 the valuation technique used and key inputs to the valuation on investment properties in 2018 and 2017 follows:

| 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, 2018 and 2017, the cost of investment property amounted to ₱2,745.

## 12. Property and Equipment

The rollforward analyses of this account follow:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Computer Equipment | Leasehold Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Total |
| **Cost** | | | | | |
| At January 1, 2018 | **₱56,936,167** | **₱11,882,092** | **₱36,523,642** | **₱7,023,897** | **₱112,365,798** |
| Additions | **34,519,561** | **5,537,294** | **2,879,286** | **905,546** | **43,841,687** |
| Disposals | – | – | **(2,720,536)** | – | **(2,720,536)** |
| Retirements | **(7,176,094)** | **(5,863,809)** | **(844,214)** | **(2,869,542)** | **(16,753,659)** |
| At December 31, 2018 | **84,279,634** | **11,555,577** | **35,838,178** | **5,059,901** | **136,733,290** |
| **Accumulated depreciation and amortization** | | | | | |
| At January 1, 2018 | **16,505,315** | **6,828,015** | **13,613,920** | **3,591,481** | **40,538,731** |
| Depreciation and amortization during the year (Note 21) | **24,989,676** | **4,189,223** | **7,176,383** | **2,200,572** | **38,555,854** |
| Disposals | – | – | **(1,489,008)** | – | **(1,489,008)** |
| Retirements | **(7,176,094)** | **(5,863,809)** | **(844,214)** | **(2,869,542)** | **(16,753,659)** |
| At December 31, 2018 | **34,318,897** | **5,153,429** | **18,457,081** | **2,922,511** | **60,851,918** |
| **Net book value as of December 31, 2018** | **₱49,960,737** | **₱6,402,148** | **₱17,381,097** | **₱2,137,390** | **₱75,881,372** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Computer Equipment | Leasehold Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Total |
| 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 21) | 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 |

In 2018 and 2017, the Company disposed of certain assets which resulted in gain on sale of property and equipment amounting to ₱455,801 and ₱78,671, respectively.

## 13. **Other Assets**

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Creditable withholding tax | **₱238,176,552** | ₱204,677,256 |
| Security deposits | **34,616,034** | 67,888,710 |
| Prepaid expenses | **25,568,644** | 23,130,811 |
| Security fund | **55,160** | 55,160 |
| | **₱298,416,390** | ₱295,751,937 |

Creditable withholding taxes pertain to the Company's taxes withheld at source by its customers and is creditable against the income tax liability of the Company.

Security deposits are payments made by the Company in leasing building and parking space, and these amounts are set aside by the lessor to be used on the last period of the lease term.

Prepaid expenses are advance rental payments made by the Company.

## 14. Insurance Contract Liabilities and Reinsurance Assets

Insurance contract liabilities may be analyzed as follows:

| | **Insurance Contract Liabilities** | **Reinsurers' Share of Liabilities** (Note 8) | **Net 2018** | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 8) | Net 2017 |
|---|---|---|---|---|---|---|
| Provision for claims reported and loss adjustment expenses | **₱948,968,808** | **₱633,802,825** | **₱315,165,983** | ₱1,064,371,031 | ₱644,193,431 | ₱420,177,600 |
| Provision for IBNR | **522,531,541** | **303,679,234** | **218,852,307** | 249,672,323 | 106,847,802 | 142,824,521 |
| **Total claims reported and IBNR** | **1,471,500,349** | **937,482,059** | **534,018,290** | 1,314,043,354 | 751,041,233 | 563,002,121 |
| Provision for unearned premiums | **2,135,892,846** | **680,362,172** | **1,455,530,674** | 1,914,402,109 | 623,014,959 | 1,291,387,150 |
| **Total Insurance Contract Liabilities** | **₱3,607,393,195** | **₱1,617,844,231** | **₱1,989,548,964** | ₱3,228,445,463 | ₱1,374,056,192 | ₱1,854,389,271 |

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

| | **Insurance Contract Liabilities** | **Reinsurers' Share of Liabilities** (Note 8) | **Net 2018** | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 8) | Net 2017 |
|---|---|---|---|---|---|---|
| At January 1 | **₱1,314,043,354** | **₱751,041,233** | **₱563,002,121** | ₱710,512,256 | ₱189,668,317 | ₱520,843,939 |
| Claims incurred during the year | **2,158,244,472** | **563,237,785** | **1,595,006,687** | 1,934,433,355 | 778,974,689 | 1,155,458,666 |
| Increase in IBNR (Note 20) | **272,859,219** | **196,831,432** | **76,027,787** | 175,768,852 | 106,847,802 | 68,921,050 |
| Claims paid during the year (Note 20) | **(2,273,646,696)** | **(573,628,391)** | **(1,700,018,305)** | (1,506,671,109) | (324,449,575) | (1,182,221,534) |
| **At December 31** | **₱1,471,500,349** | **₱937,482,059** | **₱534,018,290** | ₱1,314,043,354 | ₱751,041,233 | ₱563,002,121 |

Provision for unearned premiums may be analyzed as follows:

| | **Insurance Contract Liabilities** | **Reinsurers' Share of Liabilities** (Note 8) | **Net 2018** | Insurance Contract Liabilities | Reinsurers' Share of Liabilities (Note 8) | Net 2017 |
|---|---|---|---|---|---|---|
| At January 1 | **₱1,914,402,109** | **₱623,014,959** | **₱1,291,387,150** | ₱1,719,261,098 | ₱599,243,842 | ₱1,120,017,256 |
| New policies written during the year (Note 18) | **5,304,459,556** | **2,342,810,695** | **2,961,648,861** | 4,786,046,292 | 2,273,202,125 | 2,512,844,167 |
| Premiums earned during the year (Note 18) | **(5,082,968,819)** | **(2,285,463,482)** | **(2,797,505,337)** | (4,590,905,281) | (2,249,431,008) | (2,341,474,273) |
| **At December 31** | **₱2,135,892,846** | **₱680,362,172** | **₱1,455,530,674** | ₱1,914,402,109 | ₱623,014,959 | ₱1,291,387,150 |

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.

| | **2018** | | | |
|---|---|---|---|---|
| | **Change in Assumption** | **Impact on insurance contract liabilities - net of reinsurance assets** | **Impact on profit before tax** | **Impact on equity** |
| **Average claim costs** | **-7.00%** | **(₱128,913,845)** | **₱128,913,845** | **₱90,239,692** |
| **Average number of claims** | **15.00%** | **244,132,275** | **(244,132,275)** | **(170,892,593)** |

| | 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) |

*Loss Development Triangle*
The tables that follow present the development of the estimated ultimate claims costs on a gross and net reinsurance basis. 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.

## 2018

| Accident Year | 2008 and prior | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claims costs:** | | | | | | | | | | | | |
| At the end of accident year | **₱3,715,574,929** | **₱2,257,878,954** | **₱448,731,836** | **₱1,019,968,706** | **₱925,722,497** | **₱2,028,516,617** | **₱2,291,517,062** | **₱1,064,534,155** | **₱1,072,674,346** | **₱1,830,487,601** | **₱2,312,703,114** | **₱2,312,703,114** |
| One year later | **3,797,630,161** | **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** | **1,970,932,199** | **–** | **1,970,932,199** |
| Two years later | **3,794,453,053** | **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** | **1,390,885,152** | **–** | **–** | **1,390,885,152** |
| Three years later | **3,756,217,764** | **1,619,691,807** | **429,515,482** | **1,095,623,582** | **962,574,524** | **2,040,162,011** | **2,086,915,609** | **1,135,162,520** | **–** | **–** | **–** | **1,135,162,520** |
| Four years later | **3,775,318,404** | **1,633,825,892** | **428,598,504** | **1,027,443,377** | **963,342,760** | **2,029,137,437** | **2,086,174,393** | **–** | **–** | **–** | **–** | **2,086,174,393** |
| Five years later | **3,741,978,058** | **1,633,381,716** | **427,544,062** | **1,028,684,643** | **961,122,827** | **2,028,126,454** | **–** | **–** | **–** | **–** | **–** | **2,028,126,454** |
| Six years later | **3,751,533,446** | **1,617,170,987** | **426,148,191** | **1,028,570,576** | **961,232,322** | **–** | **–** | **–** | **–** | **–** | **–** | **961,232,322** |
| Seven years later | **3,749,931,464** | **1,622,231,830** | **425,199,404** | **1,028,627,742** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,028,627,742** |
| Eight years later | **3,746,347,346** | **1,622,660,175** | **425,220,681** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **425,220,681** |
| Nine years later | **3,732,851,714** | **1,622,660,175** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,622,660,175** |
| Ten years later | **3,733,618,285** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **3,733,618,285** |
| **Current estimate of cumulative claims** | **3,733,618,285** | **1,622,660,175** | **425,220,681** | **1,028,627,742** | **961,232,322** | **2,028,126,454** | **2,086,174,393** | **1,135,162,520** | **1,390,885,152** | **1,970,932,199** | **2,312,703,114** | **18,695,343,037** |
| **Cumulative payments to date** | **(3,713,141,082)** | **(1,617,560,175)** | **(425,220,681)** | **(1,028,619,955)** | **(961,199,791)** | **(2,018,178,596)** | **(2,084,991,559)** | **(1,098,937,789)** | **(1,356,377,666)** | **(1,834,138,292)** | **(1,085,477,102)** | **(17,223,842,688)** |
| **Total gross insurance liabilities included in the statement of financial position** | **₱20,477,203** | **₱5,100,000** | **₱–** | **₱7,787** | **₱32,531** | **₱9,947,858** | **₱1,182,834** | **₱36,224,731** | **₱34,507,486** | **₱136,793,907** | **₱1,227,226,012** | **₱1,471,500,349** |

| Accident Year | 2008 and prior | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claims costs:** | | | | | | | | | | | | |
| At the end of accident year | **₱2,404,593,632** | **₱4,568,441,001** | **₱455,381,798** | **₱425,879,198** | **₱593,124,559** | **₱857,102,734** | **₱740,577,740** | **₱794,720,561** | **₱942,741,897** | **₱1,076,670,806** | **₱1,516,585,974** | **₱1,516,585,974** |
| One year later | **2,479,058,543** | **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** | **826,645,841** | **–** | **826,645,841** |
| Two years later | **2,469,916,420** | **355,039,607** | **500,926,019** | **441,880,364** | **632,788,511** | **862,053,239** | **797,001,416** | **861,919,892** | **1,122,402,975** | **–** | **–** | **1,122,402,975** |
| Three years later | **2,463,712,011** | **356,168,858** | **500,845,717** | **440,212,273** | **635,303,605** | **880,301,549** | **795,920,071** | **851,937,907** | **–** | **–** | **–** | **851,937,907** |
| Four years later | **2,469,726,234** | **355,852,528** | **500,570,163** | **433,074,793** | **637,014,103** | **874,058,551** | **795,241,303** | **–** | **–** | **–** | **–** | **795,241,303** |
| Five years later | **2,472,185,119** | **355,786,606** | **499,602,537** | **433,425,639** | **634,789,366** | **874,079,828** | **–** | **–** | **–** | **–** | **–** | **874,079,828** |
| Six years later | **2,481,177,807** | **355,616,022** | **498,091,070** | **433,088,612** | **634,892,164** | **–** | **–** | **–** | **–** | **–** | **–** | **634,892,164** |
| Seven years later | **2,479,903,992** | **355,573,339** | **497,142,394** | **433,145,778** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **433,145,778** |
| Eight years later | **2,479,942,117** | **355,774,905** | **497,163,671** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **497,163,671** |
| Nine years later | **2,470,120,425** | **355,774,905** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **355,774,905** |
| Ten years later | **2,470,396,940** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **2,470,396,940** |
| **Current estimate of cumulative claims** | **2,470,396,940** | **355,774,905** | **497,163,671** | **433,145,778** | **634,892,164** | **874,079,828** | **795,241,303** | **851,937,907** | **1,122,402,975** | **826,645,841** | **1,516,585,974** | **10,378,267,286** |
| **Cumulative payments to date** | **(2,464,674,557)** | **(355,774,905)** | **(497,163,671)** | **(433,137,991)** | **(634,866,715)** | **(873,169,441)** | **(794,417,940)** | **(837,563,888)** | **(1,110,868,562)** | **(773,809,912)** | **(1,068,801,414)** | **(9,844,248,996)** |
| **Total net insurance liabilities included in the statement of financial position** | **₱5,722,383** | **₱–** | **₱–** | **₱7,787** | **₱25,449** | **₱910,387** | **₱823,363** | **₱14,374,019** | **₱11,534,413** | **₱52,835,929** | **₱447,784,560** | **₱534,018,290** |

## 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 | ₱3,079,218,639 | ₱636,356,290 | ₱2,257,878,954 | ₱448,731,836 | ₱1,019,968,706 | ₱925,722,497 | ₱2,028,516,617 | ₱2,291,517,062 | ₱1,064,534,155 | ₱1,072,674,346 | ₱1,830,487,601 | ₱1,830,487,601 |
| 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 | – | – | 1,148,835,319 |
| 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** | ₱10,290,576 | ₱11,109,822 | ₱5,100,000 | ₱– | ₱165 | ₱72,248 | ₱12,390,705 | ₱3,583,099 | ₱62,421,289 | ₱187,934,741 | ₱1,021,140,709 | ₱1,314,043,354 |

| 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 | ₱1,981,468,231 | ₱423,125,401 | ₱4,568,441,001 | ₱455,381,798 | ₱425,879,198 | ₱593,124,559 | ₱857,102,734 | ₱740,577,740 | ₱794,720,561 | ₱942,741,897 | ₱1,076,670,806 | ₱1,076,670,806 |
| 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** | ₱5,115,446 | ₱1,038,093 | ₱– | ₱– | ₱165 | ₱66,212 | ₱1,713,356 | ₱2,815,704 | ₱32,784,022 | ₱41,911,228 | ₱477,557,895 | ₱563,002,121 |

15. **Insurance Payables**

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Due to reinsurers and ceding companies | **₱1,237,036,897** | ₱902,210,821 |
| Funds held for reinsurers | **226,543,652** | 176,920,906 |
| | **₱1,463,580,549** | ₱1,079,131,727 |

The rollforward analysis of insurance balances payable follows:

| | **2018** | | |
|---|---|---|---|
| | **Due to Reinsurers and Ceding Companies** | **Funds Held for Reinsurers** | **Total** |
| January 1, 2018 | **₱902,210,821** | **₱176,920,906** | **₱1,079,131,727** |
| Arising during the year | **2,077,474,537** | **363,936,364** | **2,441,410,901** |
| Utilized | **(1,742,648,461)** | **(314,313,618)** | **(2,056,962,079)** |
| December 31, 2018 | **₱1,237,036,897** | **₱226,543,652** | **₱1,463,580,549** |

| | 2017 | | |
|---|---|---|---|
| | Due to Reinsurers and Ceding Companies | Funds Held for Reinsurers | Total |
| January 1, 2017 | ₱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) |
| December 31, 2017 | ₱902,210,821 | ₱176,920,906 | ₱1,079,131,727 |

Interest expense on funds held for reinsurers amounted to ₱1,035,978 and ₱963,460 in 2018 and 2017, respectively.

16. **Accounts Payable and Accrued Expenses**

This account consists of:

| | **2018** | 2017 |
|---|---|---|
| Accounts payable | **₱145,009,645** | ₱164,516,924 |
| Commissions payable | **300,851,018** | 212,296,560 |
| Deferred output VAT | **172,401,362** | 147,072,830 |
| Premium deposit | **75,997,414** | 15,665,293 |
| Accrued expenses | **52,448,933** | 47,391,012 |
| VAT payable | **37,803,277** | 22,902,845 |
| Other taxes payable | **6,720,918** | 29,702,661 |
| Others | **1,287,310** | 1,348,217 |
| | **₱792,519,877** | ₱640,896,342 |

Accounts payable includes purchases and other obligations not yet paid by the Company. It also includes cost already incurred but not yet paid.

Commission payable pertains to amounts payable to agents in the form of commission.

Deferred output VAT are VAT incurred by the Company in a sale but not yet collected.

Premium deposit are payments collected in advance by the Company. In some instances, the Company credits premium deposit when there are overpayments and/or unidentified payments.

VAT payable pertains to excess output VAT over the input VAT recorded by the Company.

## 17. Equity

*Capital Stock Issued*
The details of this account follows:

| | |
|---|---|
| *Issued shares* | |
| Class A (nonvoting), ₱10 par value: | |
| Authorized and issued 28,000,000 shares in 2018 and 2017 | ₱280,000,000 |
| Class B (voting), ₱10 par value: | |
| Authorized and issued 7,000,000 shares in 2018 and 2017 | 70,000,000 |
| | ₱350,000,000 |

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

## 18. Net Insurance Earned Premiums

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

| | **2018** | 2017 |
|---|---|---|
| Gross premiums on insurance contracts: | | |
| Direct insurance | **₱4,947,541,599** | ₱4,194,208,910 |
| Assumed reinsurance | **356,917,957** | 591,837,382 |
| Total gross premiums on insurance contracts (Note 14) | **5,304,459,556** | 4,786,046,292 |
| Gross change in provision for unearned premiums | **(221,490,737)** | (195,141,011) |
| **Total gross earned premiums on insurance contracts** (Note 14) | **5,082,968,819** | 4,590,905,281 |
| Reinsurers' share of insurance contracts premiums: | | |
| Direct insurance | **2,023,643,591** | 1,995,479,797 |
| Assumed reinsurance | **319,167,104** | 277,722,328 |
| Total reinsurers' share of insurance contracts premiums (Note 14) | **2,342,810,695** | 2,273,202,125 |

(Forward)

| | 2018 | 2017 |
|---|---|---|
| Reinsurers' share of gross change in provision for unearned premiums | **(₱57,347,213)** | (₱23,771,117) |
| **Total reinsurers' share of gross earned premiums on insurance contracts** (Note 14) | **2,285,463,482** | 2,249,431,008 |
| **Net insurance earned premiums** | **₱2,797,505,337** | ₱2,341,474,273 |

19. **Investment Income**

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Interest income on: | | |
| Financial assets at FVOCI and amortized cost (Note 6) | **₱71,330,955** | ₱– |
| Cash and cash equivalents and short-term investments (Note 4) | **7,883,856** | 11,234,265 |
| AFS debt securities (Note 6) | **–** | 68,481,988 |
| Dividend income (Note 6) | **7,800,708** | 7,779,024 |
| | **₱87,015,519** | ₱87,495,277 |

20. **Net Insurance Benefits and Claims**

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

| | 2018 | 2017 |
|---|---|---|
| Insurance contracts benefits and claims paid: | | |
| Direct insurance | **₱2,041,333,148** | ₱1,473,388,627 |
| Assumed reinsurance | **232,313,548** | 33,282,482 |
| **Total insurance contract benefits and claims paid** (Note 14) | **₱2,273,646,696** | ₱1,506,671,109 |

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

| | 2018 | 2017 |
|---|---|---|
| Reinsurers' share of insurance contract benefits and claims paid: | | |
| Direct insurance | **₱353,658,610** | ₱319,518,520 |
| Assumed reinsurance | **219,969,781** | 4,931,055 |
| **Total reinsurers' share of insurance contract benefits and claims paid** (Note 14) | **₱573,628,391** | ₱324,449,575 |

Gross change in insurance contract liabilities:

| | 2018 | 2017 |
|---|---|---|
| Change in insurance contract liabilities: | | |
| Direct insurance | **₱204,137,201** | ₱132,873,356 |
| Assumed reinsurance | **(319,539,425)** | 294,888,890 |
| Change in provision for IBNR (Note 14) | **272,859,219** | 175,768,852 |
| **Total gross change in insurance contract liabilities** (Note 14) | **₱157,456,995** | ₱603,531,098 |

Reinsurers' share of change in insurance contract liabilities:

| | 2018 | 2017 |
|---|---|---|
| Reinsurers' share of change in insurance contract liabilities: | | |
| Direct insurance | **₱293,027,326** | ₱167,153,676 |
| Assumed reinsurance | **(303,417,932)** | 287,371,438 |
| Change in provision for IBNR (Note 14) | **196,831,432** | 106,847,802 |
| **Total reinsurers' share of change in insurance contract liabilities** (Note 14) | **₱186,440,826** | ₱561,372,916 |

## 21. Operating Expenses

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Personnel expenses (Note 22) | **₱288,962,233** | ₱266,243,326 |
| Advertising and promotions | **76,414,867** | 56,360,626 |
| Professional fees | **70,303,125** | 69,417,213 |
| Rent (Note 27) | **48,048,549** | 38,105,772 |
| Information technology, communication and supplies | **39,107,366** | 40,582,820 |
| Depreciation and amortization (Note 12) | **38,555,854** | 30,934,218 |
| Electricity and maintenance | **35,819,780** | 32,512,200 |
| Transportation and travel | **15,670,814** | 15,501,636 |
| Entertainment, amusement and recreation | **13,376,664** | 12,291,853 |
| Provision for credit and impairment losses (Notes 4, 5, 6 and 7) | **11,740,914** | 1,682,364 |
| Taxes and licenses | **5,484,670** | 7,057,362 |
| Others | **10,528,650** | 22,564,091 |
| | **₱654,013,486** | ₱593,253,481 |

## 22. Personnel Expenses

This account consists of:

| | 2018 | 2017 |
|---|---|---|
| Salaries and wages | **₱215,121,050** | ₱197,068,752 |
| Service fee | **29,736,056** | 25,633,386 |
| Net benefit expense (Note 23) | **12,341,802** | 13,927,044 |
| SSS, Pag-ibig fund and other contributions | **8,569,049** | 7,645,970 |
| Employee welfare costs | **2,610,758** | 2,146,665 |
| Others | **20,583,518** | 19,821,509 |
| | **₱288,962,233** | ₱266,243,326 |

Service fee pertains to fees paid for general services outsourced from manpower agencies.

## 23. 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:

| | **2018** | | |
|---|---|---|---|
| | **Present Value of DBO** | **Fair Value of Plan Assets** | **Net retirement liability** |
| Balance at beginning of year | **₱122,457,626** | **(₱139,203,177)** | **(₱16,745,551)** |
| Net Benefit Cost in Statement of Income | | | |
| Current service cost | **13,302,996** | **–** | **13,302,996** |
| Net interest cost | **6,028,398** | **(6,989,592)** | **(961,194)** |
| Sub-total | **19,331,394** | **(6,989,592)** | **12,341,802** |
| Remeasurement in OCI | | | |
| Return on plan asset (excluding amount included in net interest) | **–** | **22,347,796** | **22,347,796** |
| Actuarial changes arising from experience adjustments | **(1,528,983)** | **–** | **(1,528,983)** |
| Actuarial changes arising from changes in financial assumptions | **(8,344,871)** | **–** | **(8,344,871)** |
| Actuarial changes arising from changes in demographic assumptions | **(123,252)** | **–** | **(123,252)** |
| Sub-total | **(9,997,106)** | **22,347,796** | **12,350,690** |
| Benefit paid | **(7,918,412)** | **7,918,412** | **–** |
| Balance at end of year | **₱123,873,502** | **(₱115,926,561)** | **₱7,946,941** |

| | 2017 | | |
|---|---|---|---|
| | Present Value of DBO | Fair Value of Plan Assets | Net retirement liability |
| Balance at beginning of year | ₱113,140,197 | (₱91,885,312) | ₱21,254,885 |
| Net Benefit Cost in Statement of Income | | | |
| Current service cost | 12,874,927 | – | 12,874,927 |
| Net interest cost | 4,813,424 | (3,761,307) | 1,052,117 |
| Sub-total | 17,688,351 | (3,761,307) | 13,927,044 |
| Remeasurement in OCI | | | |
| Return on plan asset (excluding amount included in net interest) | – | (14,987,569) | (14,987,569) |
| Actuarial changes arising from experience adjustments | 8,780,411 | – | 8,780,411 |
| Actuarial changes arising from changes in financial assumptions | (14,046,772) | – | (14,046,772) |
| Actuarial changes arising from changes in demographic assumptions | 26,618 | – | 26,618 |
| Sub-total | (5,239,743) | (14,987,569) | (20,227,312) |
| Actual contributions | – | (31,700,168) | (31,700,168) |
| Benefit paid | (3,131,179) | 3,131,179 | – |
| Balance at end of year | ₱122,457,626 | (₱139,203,177) | (₱16,745,551) |

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

| | **2018** | 2017 |
|---|---|---|
| Discount rate | **7.34%** | 5.74% |
| Rate of salary increase | **6.00%** | 5.50% |

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, 2018 and 2017, the FV of the Company's equity in the fund amounted to ₱115,926,561 and ₱139,203,177, respectively; representing 90.52% and 90.91%, 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:

| | **2018** | 2017 |
|---|---|---|
| Cash in bank | **₱8,833,034** | ₱26,979,172 |
| Investments | | |
| Bonds and government securities | **76,779,985** | 75,926,104 |
| Marketable equity securities | **29,219,954** | 35,251,414 |
| Common trust fund | **396,863** | 456,668 |
| Other receivables | **841,151** | 1,119,644 |
| Liabilities | **(144,426)** | (529,825) |
| **Total plan assets** | **₱115,926,561** | ₱139,203,177 |

The Company expect to contribute ₱7,946,941 to its retirement plan in 2019.

*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:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **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% | (6,877,638) | +1.00% | (₱8,866,140) |
| | −1.00 | 7,890,610 | −1.00 | 10,387,317 |
| **Salary increase rate** | +1.00 | 8,658,273 | +1.00 | 11,031,123 |
| | −1.00 | (7,676,177) | −1.00 | (9,584,635) |

Maturity profile of the undiscounted benefit payments are as follows:

| | Expected benefit payments | | |
|---|---|---|---|
| | Normal Retirement | Other than Normal Retirement | Total |
| Less than one year | ₱29,940,058 | ₱5,521,712 | ₱35,461,770 |
| More than one year to five years | 19,273,172 | 27,050,926 | 46,324,098 |
| More than five years to 10 years | 49,785,648 | 38,983,687 | 88,769,335 |
| More than 10 years to 15 years | 36,138,709 | 40,573,729 | 76,712,438 |
| More than 15 years to 20 years | 46,618,798 | 39,093,770 | 85,712,568 |
| More than 20 years | 213,902,372 | 73,085,170 | 286,987,542 |

The average duration of the defined benefit obligation as of December 31, 2018 and 2017 is 17.76 years and 18.29 years, respectively.

## 24. Income Tax

The provision for income tax consists of:

| | **2018** | 2017 |
|---|---|---|
| Final | **₱17,095,345** | ₱18,419,377 |
| Current | **5,485,995** | 6,759,791 |
| Deferred | **(16,721,876)** | (986,607) |
| | **₱5,859,464** | ₱24,192,561 |

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

| | **2018** | 2017 |
|---|---|---|
| Deferred tax assets through profit or loss: | | |
| Provision for IBNR losses - net | **₱22,808,336** | ₱36,301,117 |
| Pension obligation | **6,943,316** | – |
| Allowance for doubtful accounts | **7,386,048** | 3,881,195 |
| MCIT | **5,485,995** | – |
| Excess of provision for unearned premiums per books over tax basis | – | 11,622,471 |
| Deferred reinsurance commissions | – | 18,624,967 |
| | **42,623,695** | 70,429,750 |
| Deferred tax liabilities through profit or loss: | | |
| Deferred acquisition costs | – | 91,059,429 |
| Deferred reinsurance premiums | – | (41,162,833) |
| | – | 49,896,596 |
| | **42,623,695** | 20,533,154 |
| Deferred tax assets through OCI: | | |
| Remeasurement losses on defined benefit obligation | **3,909,543** | 204,336 |
| | **₱46,533,238** | ₱20,737,490 |

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.

| | **2018** | 2017 |
|---|---|---|
| NOLCO | **₱168,791,565** | ₱61,365,256 |
| Accrued expenses | **52,448,933** | 47,391,012 |
| MCIT | **14,508,354** | 22,062,389 |
| Unrealized foreign exchange loss (gain) | **(577,109)** | 1,341,662 |
| Retirement expense | **–** | 15,325,219 |
| Provision for IBNR losses - net | **–** | 21,820,797 |

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 |
| 2018 | 107,426,309 | – | – | 107,426,309 | December 31, 2021 |
| | ₱224,101,131 | ₱– | ₱55,309,566 | ₱168,791,565 | |

As of December 31, 2018, 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 | Applied | Expired | Balance | Expiry Date |
|---|---|---|---|---|---|
| 2015 | ₱7,554,035 | ₱– | ₱7,554,035 | ₱– | December 31, 2018 |
| 2016 | 7,748,563 | – | – | 7,748,563 | December 31, 2019 |
| 2017 | 6,759,791 | – | – | 6,759,791 | December 31, 2020 |
| 2018 | 5,485,995 | – | – | 5,485,995 | December 31, 2021 |
| | ₱27,548,384 | ₱– | ₱7,554,035 | ₱19,994,349 | |

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

| | **2018** | 2017 |
|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% |
| Tax effects of: | | |
| Gain on sale on AFS financial assets | **4.27** | (15.65) |
| Interest income already subjected to final taxes | **8.06** | (3.67) |
| Unrecognized deferred tax assets | **(33.63)** | (13.12) |
| Dividend income | **2.83** | (1.56) |
| Nondeductible expenses | **(18.61)** | 7.04 |
| Effective income tax rate | **(7.08%)** | 16.15% |

## 25. **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 in the current year.

*Fixed Capitalization Requirements*
Department of Finance Order (DO) No. 27-06 provides for the capitalization requirements for life, nonlife 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 "Amended 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 nonlife 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, 2018 and 2017, the Company's networth amounted to ₱1,014,683,403 and ₱1,172,095,668, 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 nonlife 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, 2018 and 2017 was determined by the Company:

| | **2018** | 2017 |
|---|---:|---:|
| Net worth | **725,685,302** | 907,799,274 |
| RBC requirement | **461,404,792** | 391,289,127 |
| RBC Ratio | **157%** | 232% |

The final 2018 RBC ratio can be determined only after the accounts of the Company have been examined by the IC. The 2017 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 the Amended Insurance Code, 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 Code but are used in accounting of insurance and reinsurance companies.

- Circular Letter 2016-67, *Valuation Standards for Nonlife Insurance Policy Reserves*, prescribes the new valuation methodology for the nonlife insurance companies. Nonlife insurance companies will be changing the basis of valuation of their nonlife 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 nonlife 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:

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Gross Liabilities** | **Reinsurers' Share of Liabilities** | **Net Liabilities** | Gross Liabilities | Reinsurers' Share of Liabilities | Net Liabilities |
| Motor car | **₱324,430,308** | **₱36,423,516** | **₱288,006,792** | ₱376,665,357 | ₱32,766,052 | ₱343,899,305 |
| Fire | **829,574,807** | **682,608,853** | **146,965,954** | 665,515,481 | 542,757,012 | 122,758,469 |
| Casualty | **134,400,028** | **101,163,473** | **33,236,555** | 97,213,283 | 58,557,461 | 38,655,822 |
| Marine | **76,343,104** | **53,206,227** | **23,136,877** | 103,398,346 | 92,115,091 | 11,283,255 |
| Accident | **20,418,017** | **1,706,564** | **18,711,453** | 17,244,302 | 4,888,360 | 12,355,942 |
| Engineering | **55,481,297** | **43,284,293** | **12,197,004** | 29,766,229 | 14,401,085 | 15,365,144 |
| Bonds | **30,618,937** | **19,089,133** | **11,529,804** | 22,950,233 | 5,556,172 | 17,394,061 |
| Medical | **233,851** | **–** | **233,851** | 1,290,123 | – | 1,290,123 |
| | **₱1,471,500,349** | **₱937,482,059** | **₱534,018,290** | ₱1,314,043,354 | ₱751,041,233 | ₱563,002,121 |

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 financial assets at FVTPL 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 are liable fair value are carried at cost.

Fair Value Measurement

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

| | **2018** | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| **Assets measured at fair value:** | | | | |
| Financial assets at FVTPL | | | | |
| Listed equity securities | **₱379,105,785** | **₱–** | **₱–** | **₱379,105,785** |
| Golf club shares | **–** | **25,650,000** | **–** | **25,650,000** |
| Unit investment fund | **–** | **14,650,000** | **–** | **14,650,000** |
| Unlisted equity securities | **–** | **–** | **20,000** | **20,000** |
| | **379,105,785** | **40,300,000** | **20,000** | **419,425,785** |
| Financial assets at FVOCI | | | | |
| Government debt securities | | | | |
| Local currency | **373,932,581** | **–** | **–** | **373,932,581** |
| | **753,038,366** | **40,300,000** | **20,000** | **793,358,366** |

(Forward)

| | 2018 | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| **Assets for which fair values are disclosed:** | | | | |
| Financial asset at amortized cost | | | | |
| Government debt securities | | | | |
| Local currency | **₱864,164,862** | **₱–** | **₱–** | **₱864,164,862** |
| Corporate bonds | **62,866,862** | **–** | **–** | **62,866,862** |
| Loans and receivables | | | | |
| Accounts receivables | **–** | **–** | **156,834,857** | **156,834,857** |
| Employee receivables | **–** | **–** | **5,627,439** | **5,627,439** |
| Investment properties | **–** | **–** | **1,176,414** | **1,176,414** |
| | **927,031,724** | **–** | **163,638,710** | **1,090,670,434** |
| | **₱1,680,070,090** | **₱40,300,000** | **₱163,658,710** | **₱1,884,028,800** |

| | 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 |
| | 1,628,452,839 | 67,210,000 | – | 1,695,662,839 |
| **Assets for which fair values are disclosed:** | | | | |
| Loans and receivables - net | | | | |
| Accounts receivables | – | – | 154,528,131 | 154,528,131 |
| Employee receivables | – | – | 6,669,950 | 6,669,950 |
| Investment properties | – | – | 1,176,414 | 1,176,414 |
| | – | – | 162,374,495 | 162,374,495 |
| | ₱1,628,452,839 | ₱67,210,000 | ₱162,374,495 | ₱1,858,037,334 |

Fair values of investment in securities classified as financial assets at FVTPL and FVOCI 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.

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 arises from the possibility of asset impairment occurring because counterparties cannot meet their obligations in transactions involving financial instruments.

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 Policy is regularly reviewed by the Management and amended as necessary.

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.

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.

| | **2018** | 2017 |
|---|---|---|
| Cash and cash equivalents* (Note 4) | **₱808,568,244** | ₱826,493,704 |
| Insurance receivables (Note 5) | **1,904,046,343** | 1,468,751,394 |
| Short-term investments (Note 4) | **1,336,400** | 1,326,311 |
| Financial assets: | | |
| Financial assets at FVTPL (Note 6) | **419,425,785** | − |
| Financial assets at FVOCI (Note 6) | **373,932,581** | − |
| Financial assets at amortized cost (Note 6) | **983,029,484** | − |
| AFS financial assets (Note 6) | − | 1,695,682,839 |
| Loans and receivables (Note 7) | **162,462,296** | 161,198,081 |
| Accrued income (Note 9) | **13,158,064** | 11,318,198 |
| | **₱4,665,959,197** | ₱4,164,770,527 |

**Excluding cash on hand amounting to ₱171,800 and ₱166,800 as of December 31,2018 and 2017, respectively.*

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.

| | 2018 | | | |
|---|---|---|---|---|
| | Neither Past Due nor Impaired | | Past Due | |
| | Investment Grade | Satisfactory | or Impaired | Total |
| Cash and cash equivalents* | **₱808,568,244** | **₱–** | **₱–** | **₱808,568,244** |
| Short-term investments | **1,336,400** | – | – | **1,336,400** |
| Insurance receivables: | | | | |
| Due from brokers and agents | – | **1,342,364,968** | **89,934,117** | **1,432,299,085** |
| Due from ceding companies and reinsurers | – | **13,644,606** | **295,665,271** | **309,309,877** |
| Reinsurance recoverable on paid losses | – | **168,738** | **162,268,643** | **162,437,381** |
| Loss reserve from ceding company | | | | |
| Financial assets: | | | | |
| Financial assets at FVTPL | | | | |
| Listed equity securities | **91,088,365** | – | **288,017,420** | **379,105,785** |
| Club shares | **25,650,000** | – | – | **25,650,000** |
| Unit investment fund | **14,650,000** | | | **14,650,000** |
| Unlisted equity securities | **20,000** | – | – | **20,000** |
| Financial assets at FVOCI | | | | |
| Government debt securities | **373,932,581** | – | – | **373,932,581** |
| Financial assets at amortized cost | | | | |
| Government debt securities | **931,536,522** | | | **931,536,522** |
| Corporate bonds | **51,492,962** | – | – | **51,492,962** |
| Loans and receivables: | | | | |
| Accounts receivable | – | **156,834,857** | – | **156,834,857** |
| Employee receivables | – | **5,627,439** | – | **5,627,439** |
| Accrued income | **13,158,064** | – | – | **13,158,064** |
| Total | **₱2,311,433,138** | **₱1,518,640,608** | **₱835,885,451** | **₱4,665,959,197** |

**Excluding cash on hand amounting to ₱171,800 December 31,2018.*

| | 2017 | | | |
|---|---|---|---|---|
| | Neither Past Due nor Impaired | | Past Due | |
| | Investment Grade | Satisfactory | or Impaired | Total |
| 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 | ₱38,869,382 | ₱62,955,339 |
| 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 | – | 154,528,131 | – | 154,528,131 |
| Employee receivables | – | 6,669,950 | – | 6,669,950 |
| Accrued income | 11,318,198 | – | – | 11,318,198 |
| Total | ₱2,450,469,318 | ₱1,418,440,267 | ₱297,941,255 | ₱4,166,850,840 |

**Excluding cash on hand amounting to ₱166,800 as of December 31, 2017.*

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.

*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.

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Up to a year** | **1 to 3 years** | **3 to 5 years** | **Over 5 years** | **No term** | **Total** |
| Cash and cash equivalents* | **₱808,568,244** | **₱–** | **₱–** | **₱–** | **₱–** | **₱808,568,244** |
| Short-term investments | **1,336,400** | – | – | – | – | **1,336,400** |
| Insurance receivables | **1,862,994,926** | – | – | – | – | **1,862,994,926** |
| Financial assets | | | | | | |
| Financial assets at FVTPL | **14,650,000** | – | – | – | **404,775,785** | **419,425,785** |
| Financial assets at FVOCI | **88,272,981** | **51,431,482** | – | **234,228,118** | – | **373,932,581** |
| Financial assets at amortized cost | **80,276,364** | **295,690,876** | **249,129,092** | **356,860,550** | – | **981,956,882** |
| Loans and receivables | **110,423,602** | – | – | – | – | **110,423,602** |
| Accrued income | **13,158,064** | – | – | – | – | **13,158,064** |
| Total financial assets | **₱2,979,680,581** | **₱347,122,358** | **₱249,129,092** | **₱591,088,668** | **₱404,775,785** | **₱4,571,796,484** |
| Insurance contract liabilities | **₱1,471,500,349** | **₱–** | **₱–** | **₱–** | **₱–** | **₱1,471,500,349** |
| Insurance payables | **1,463,580,549** | – | – | – | – | **1,463,580,549** |
| Accounts payable and accrued expenses | **499,596,907** | – | – | – | – | **499,596,907** |
| Total financial liabilities | **₱3,434,677,805** | **₱–** | **₱–** | **₱–** | **₱–** | **₱3,434,677,805** |

**Excluding cash on hand amounting to ₱171,800 December 31,2018.*

| | 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 | 109,198,081 | – | – | – | – | 109,198,081 |
| Accrued income | 11,318,198 | – | – | – | – | 11,318,198 |
| Total financial assets | ₱2,474,081,133 | ₱389,172,150 | ₱124,866,951 | ₱662,356,406 | ₱449,523,370 | ₱4,100,000,010 |
| 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 |

**Excluding cash on hand amounting to ₱166,800 as of December 31, 2017.*

*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.

*Foreign 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, 2018 and 2017:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **US$** | **PHP** | US$ | PHP |
| **Assets** | | | | |
| Cash and cash equivalents | **$4,439,300** | **₱231,890,554** | $1,243,223 | ₱62,074,138 |
| Insurance receivables | **7,737,084** | **336,523,831** | 6,429,170 | 323,578,967 |
| | **$12,176,384** | **₱568,414,385** | $7,672,393 | ₱385,653,105 |
| **Liabilities** | | | | |
| Other insurance payables | **$7,071,656** | **₱370,733,623** | $7,115,244 | ₱358,582,858 |

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).

| | | **2018** | 2017 |
|---|---|---|---|
| | Change in variables | **Impact on profit before tax Increase (Decrease)** | |
| **USD** | +₱2 | **₱10,209,456** | ₱1,114,297 |
| **USD** | –₱1 | **(5,104,728)** | (557,149) |

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.

| | | **Maturity** | | | | |
|---|---|---|---|---|---|---|
| | **Interest Rates** | **Within 1 year** | **1-3 years** | **3-5 years** | **Over 5 years** | **Total** |
| **AFS financial assets** | | | | | | |
| **2018** | **5% - 6.50%** | **168,549,346** | **347,122,359** | **249,129,091** | **592,161,269** | **1,356,962,065** |
| 2017 | 1.00% - 5.00% | ₱20,953,962 | ₱389,172,150 | ₱124,866,951 | ₱662,356,406 | ₱1,197,349,469 |

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).

| | | **2018** | 2017 |
|---|---|---|---|
| | Change in variables | | **Impact on equity Increase (Decrease)** |
| Peso | +100 basis points | **(₱17,463,972)** | (₱61,091,155) |
| | –50 basis points | **9,404,729** | 32,871,656 |

*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 investments in 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).

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | Change in Variable | **Impact on equity Increase (Decrease)** | Change in Variable | Impact on equity Increase (Decrease) |
| Market Index 1 | +14.42% | **₱61,423,014** | +12.30% | ₱51,700,327 |
| | –14.42% | **(61,423,014)** | –12.30% | (51,700,327) |

## 26. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Related parties include affiliates, which are entities that have common shareholders with the Parent Company.

The Company, in its regular conduct of business, has entered into transactions with related parties principally consisting of the following:

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:

| | **2018** | 2017 |
|---|---|---|
| Salaries and wages | **₱69,559,642** | ₱68,188,643 |
| Other employee benefits | **886,600** | 839,922 |

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

| | 2018 | | |
|---|---|---|---|
| **Category** | **Volume/ Amount** | **Outstanding Balance** | **Nature, Terms and Conditions** |
| ***Companies under common control*** | | | |
| **Premiums** | | | |
| Metro Drug Inc. | **₱2,017,893** | **₱2,606** | 90-day |
| Bridgebury Realty Corp. | **12,816,882** | **9,570,618** | 90-day |
| Interphil Laboratories Inc. | **6,646,009** | **3,032,175** | 90-day |
| Mercator Holdings and Mgt Corp. | **1,970,859** | **9,314** | 90-day |
| Mercator Securities Corporation | **611** | **611** | 90-day |
| Zuellig Family Foundation | **408,610** | **94,487** | 90-day |
| Zuellig Pharma Asia Pacific | **332,488** | **1,710** | 90-day |
| Zuellig Pharma Corp. | **117,740,862** | **862,591** | 90-day |
| **Lease** | | | |
| Bridgebury Realty Corp. | | | |
| Rent expense | **23,587,200** | **–** | 5-year operating lease |
| Security deposit | **9,672,347** | **9,672,347** | Refundable at the end of the lease term |
| Prepaid rent | **8,195,291** | **8,195,291** | |
| **Real Estate** | | | |
| Mercator Holdings and Mgt Corp. | **94,821** | **147,071,023** | Due on demand |

| | 2017 | | |
|---|---|---|---|
| Category | Volume/ Amount | Outstanding Balance | Nature, Terms and Conditions |
| *Companies under common control* | | | |
| **Premiums** | | | |
| Metro Drug Inc. | ₱5,018,855 | ₱2,548,959 | 90-day |
| Bridgebury Realty Corp. | 21,274,742 | 12,884,394 | 90-day |
| Interphil Laboratories Inc. | 5,372,276 | – | 90-day |
| Mercator Holdings and Mgt Corp. | 695,210 | 56,577 | 90-day |
| Mercator Securities Corporation | | – | 90-day |
| Zuellig Family Foundation | 346,762 | 84,816 | 90-day |
| Zuellig Pharma Asia Pacific | 858,645 | – | 90-day |
| Zuellig Pharma Corp. | 95,775,506 | 527,263 | 90-day |
| **Lease** | | | |
| Bridgebury Realty Corp. | | | |
| Rent expense | 20,002,042 | – | 5-year operating lease |
| Security deposit | 5,981,403 | 5,981,403 | Refundable at the end of the lease term |
| Prepaid rent | 9,189,659 | 9,189,659 | |
| **Real Estate** | | | |
| Mercator Holdings and Mgt Corp. | 703,338 | 146,821,468 | Due on demand |

Transactions with related parties are made at normal market prices. Outstanding balances at year-end are unsecured and settlement generally occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

Receivable from Mercator is gross of allowance for credit losses amounting to ₱52,000,000 as of December 31, 2018 and 2017.

## 27. 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% on the second 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, 2018 to December 16, 2021 with stipulated monthly rent of ₱49,488 and a two-year parking lease effective January 1, 2018 to December 31, 2018 with stipulated monthly rent of ₱2,500.

c. Three-year lease of an office space for its Davao branch effective July 1,2017 to June 30, 2020. The stipulated monthly rent of ₱35,218 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% annually.

g. One-year lease of an office and parking space for its Binondo satellite office effective October 1, 2018 to October 1, 2019 with stipulated monthly rent of ₱37,602 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. Five-year lease of an office space for its Dagupan branch effective January 1, 2018 to December 31, 2022 with a stipulated monthly rent of ₱53,248 shall have an escalation rate of 5.0% annually.

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% annually.

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% annually.

m. Two-year lease of an office space for its Las Piñas satellite office effective January 1, 2017 to December 31, 2019 with stipulated monthly rent of ₱35,138.

n. One-year lease of an office space for its Iloilo satellite office effective March 1, 2018 to February 28, 2019 with stipulated monthly rent of ₱9,000.

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% annually.

p. One-year lease of an office space for its Laguna satellite office effective January 1, 2018 to December 31, 2018 with stipulated monthly rent of ₱12,000.

q. Three-year lease of an office space for its Commonwealth satellite office effective September 1, 2018 to August 31, 2021 with stipulated monthly rent of ₱41,022 and have an escalation rate of 5% annually.

r. Three-year lease of an office space for FPAC Business Lounge effective December 16, 2018 to December 15, 2021. The stipulated monthly rent of ₱256,200 shall have an escalation rate of 8% 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, 2018 to March 31, 2020 with stipulated monthly rent of ₱14,000.

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% annually.

u. Two-year lease of an office space for its Cavite satellite office effective April 1, 2018 to March 31, 2020 with stipulated monthly rent of ₱21,000 and have an escalation rate of 5% annually.

v. Two-year lease of an office space for its Baguio satellite office effective December 1, 2017 to November 30, 2019 with stipulated monthly rent of ₱30,000 and have an escalation rate of 10% annually.

w. Three-year lease of an office space for its Ortigas extension office effective April 1, 2016 to March 31, 2019 with stipulated monthly rent of ₱75,105 and shall have an escalation rate of 5% annually.

x. One-year lease of an office space for its Nuvali satellite office effective February 1, 2018 to January 31, 2019 with stipulated monthly rent of ₱32,912.

y. Two-year lease of an office space for its Palawan satellite office effective November 1, 2017 to October 30, 2019 with stipulated monthly rent of ₱25,000 and have an escalation rate of 10% annually.

z. Three-year lease of an office space for its Masinag satellite office effective July 1, 2018 to June 30, 2021 with stipulated monthly rent of ₱25,200 and shall have an escalation rate of 8% annually.

Rent expense charged against operations amounted to ₱48,048,549 and ₱38,105,772 in 2018 and 2017, respectively (see Note 21).

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

| | **2018** | 2017 |
|---|---|---|
| Within one year | **₱38,832,558** | ₱10,166,147 |
| After one year but not more than 5 years | **84,274,192** | 116,539,200 |
| More than five years | – | 45,228,639 |
| | **₱123,106,750** | ₱171,933,986 |

## 28. Reconciliation of PFRS Net Income to Statutory Net Income

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

| | **2018** | 2017 |
|---|---|---|
| PFRS net income (loss) | **(₱88,569,008)** | ₱125,600,307 |
| Add (deduct): | | |
| Deferred acquisition costs - net | **(22,668,932)** | (65,757,809) |
| Difference in change in provision for unearned premiums - net | **34,029,498** | (2,889,880) |
| Tax effect of PFRS adjustments | **(3,408,170)** | 20,594,307 |
| Statutory net income (loss) | **(₱80,616,612)** | ₱77,546,925 |

## 29. 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.

## 30. 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 ₱516,855,128 for the year based on the amount reflected in the Premium Income account of ₱4,307,126,068.

The Company has zero-rated sales amounting to ₱119,754,079.

Input VAT

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

| | |
|---|---|
| At January 1, 2018 | ₱16,941,154 |
| Current year's domestic purchases/payments for: | |
| Purchase of goods | 5,094,776 |
| Payment for services | 230,202,153 |
| | 252,238,083 |
| Total Input VAT claimed during the year | 234,875,973 |
| At December 31, 2018 | ₱17,362,110 |

Documentary Stamp Tax (DST)

The DST paid on the following transactions are:

| Transaction | DST |
|---|---|
| Policies of insurance upon property | ₱641,454,099 |
| Compulsory third party liability (CTPL) | 518,868 |
| Accident and health | 1,321,709 |

Other Taxes and Licenses

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

| | |
|---|---|
| Local: | |
| License and permit fees | ₱125,495 |
| Real estate taxes | – |
| | 125,495 |
| National: | |
| Fees paid to the Insurance Commission | ₱2,146,571 |
| Tax on sale of equity securities | 597,026 |
| Licenses of agents | 1,359,810 |
| Fringe benefit taxes | 376,856 |
| LTO car registration fees | 123,805 |
| BIR annual registration | 23,000 |
| DST on customized cheque/license of agents | 467,631 |
| Others | 264,476 |
| | 5,359,175 |
| | ₱5,484,670 |

Other taxes paid are:

| | |
|---|---|
| Fire service tax | ₱16,862,305 |
| Local government tax | 13,525,473 |
| Premium tax | 2,841,267 |
| | ₱33,229,045 |

Withholding Taxes
The amount of withholding taxes paid/accrued in 2018 amounted to:

| | |
|---|---|
| Expanded withholding taxes | ₱118,432,984 |
| Withholding taxes on compensation and benefits | 23,811,868 |
| Final withholding taxes | 6,588,269 |
| | ₱148,833,121 |

Tax Contingencies
The Company is under preliminary tax audit for taxable years 2012, 2013, 2014, 2015, 2016 and 2017. 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.