Alliedbankers Insurance Corporation

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Alliedbankers Insurance Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Alliedbankers Insurance Corporation (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.

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 29 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 Alliedbankers Insurance Corporation. 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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April 12, 2019

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Cash and cash equivalents (Notes 4 and 23)	**₱536,993,631**	₱483,194,558
Insurance receivables – net (Notes 5 and 23)	**577,316,724**	457,955,031
Financial assets (Note 6)		
Financial assets at fair value through profit or loss	**220,683,979**	238,708,909
Available-for-sale (AFS) financial assets	**727,715,509**	701,454,646
Loans and receivables	**174,559,592**	199,812,744
Accrued income (Note 7)	**9,323,256**	7,575,006
Reinsurance assets (Notes 8 and 13)	**368,091,356**	288,307,014
Deferred acquisition costs (Note 9)	**26,537,688**	22,686,781
Property and equipment – net (Note 10)	**24,470,405**	21,711,457
Deferred tax assets – net (Note 22)	**14,448,099**	14,835,466
Net pension asset (Note 21)	**963,671**	–
Other assets (Note 11)	**64,649,494**	58,094,674
	₱2,745,753,404	₱2,494,336,286
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Note 13)	**₱594,670,823**	₱455,513,503
Accounts payable and accrued expenses (Note 12)	**283,944,478**	243,002,408
Insurance payables (Note 14)	**301,256,571**	228,552,543
Net pension liability (Note 21)	**–**	7,496,826
Dividends payable (Note 16)	**19,237,343**	64,687,298
Deferred reinsurance commissions (Note 9)	**14,706,719**	11,592,286
	1,213,815,934	1,010,844,864
Equity		
Capital stock (Note 16)	**470,000,000**	470,000,000
Subscribed capital stock (Note 16)	**165,537,500**	165,537,500
Contributed surplus (Note 16)	**441,615,510**	441,615,510
Revaluation reserve on AFS financial assets (Note 6)	**10,048,184**	26,333,442
Remeasurement gains on defined benefit plan (Note 21)	**4,578,414**	1,576,119
Retained earnings (Note 16)	**440,157,862**	378,428,851
	1,531,937,470	1,483,491,422
	₱2,745,753,404	₱2,494,336,286

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2018	2017
REVENUES		
Gross earned premiums	**₱614,753,414**	₱567,700,477
Reinsurers' share of gross earned premiums	**(357,312,672)**	(380,880,959)
Net earned premiums (Notes 13, 17 and 24)	**257,440,742**	186,819,518
Investment income – net (Notes 2 and 18)	**44,147,986**	51,014,899
Commission income (Notes 9 and 24)	**37,095,798**	37,126,564
Foreign exchange gain (loss) – net	**3,045,123**	(419,649)
Gain on sale of AFS financial assets (Note 6)	**2,188,181**	3,270,587
Others (Note 14)	**4,389,420**	30,812,465
Other income	**90,866,508**	121,804,866
	348,307,250	308,624,384
BENEFITS, CLAIMS AND EXPENSES		
Gross insurance benefits and claims paid	**88,770,800**	166,877,886
Reinsurers' share of gross insurance benefits and claims paid	**(21,100,125)**	(118,063,484)
Gross change in insurance contract liabilities	**74,696,438**	(79,174,487)
Reinsurers' share of gross change in insurance contract liabilities	**(51,986,432)**	83,989,939
Net insurance benefits and claims (Notes 13 and 19)	**90,380,681**	53,629,854
General and administrative expenses (Notes 20 and 24)	**109,974,464**	86,189,079
Commission expense (Notes 9 and 24)	**54,824,038**	57,690,462
Underwriting expenses	**9,461,469**	8,260,697
Interest expense (Note 14)	**495,013**	452,216
Expenses	**174,754,984**	152,592,454
	265,135,665	206,222,308
INCOME BEFORE INCOME TAX	**83,171,585**	102,402,076
PROVISION FOR INCOME TAX (Note 22)	**21,442,574**	23,644,669
NET INCOME	**₱61,729,011**	₱78,757,407

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
NET INCOME	**₱61,729,011**	₱78,757,407
OTHER COMPREHENSIVE INCOME		
To be reclassified to profit or loss in subsequent periods:		
Net change in the fair value of AFS financial assets (Note 6)	**(20,020,564)**	25,125,674
Valuation gain (loss) realized through profit or loss:		
Impairment loss (Notes 6 and 20)	**5,923,487**	1,700,139
Gain on sale of AFS financial assets (Note 6)	**(2,188,181)**	(3,270,587)
	(16,285,258)	23,555,226
Not to be reclassified to profit and loss in subsequent periods:		
Change in remeasurement gains on defined benefit plan (Note 21)	**4,288,993**	1,843,888
Income tax effect (Note 22)	**(1,286,698)**	(553,166)
	3,002,295	1,290,722
	(13,282,963)	24,845,948
TOTAL COMPREHENSIVE INCOME	**₱48,446,048**	₱103,603,355

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Capital stock (Note 16)	Subscribed capital stock (Note 16)	Contributed surplus (Note 16)	Revaluation reserve on AFS financial assets (Note 6)	Remeasurement gains on defined benefit plan (Note 21)	Retained earnings (Note 16)	Total
Balance at January 1, 2018	**₱470,000,000**	**₱165,537,500**	**₱441,615,510**	**₱26,333,442**	**₱1,576,119**	**₱378,428,851**	**₱1,483,491,422**
Net income for the year	–	–	–	–	–	**61,729,011**	**61,729,011**
Other comprehensive income (loss)	–	–	–	**(16,285,258)**	**3,002,295**	–	**(13,282,963)**
Total comprehensive income	–	–	–	**(16,285,258)**	**3,002,295**	**61,729,011**	**48,446,048**
Balance at December 31, 2018	**₱470,000,000**	**₱165,537,500**	**₱441,615,510**	**₱10,048,184**	**₱4,578,414**	**₱440,157,862**	**₱1,531,937,470**
Balance at January 1, 2017	₱345,000,000	₱117,412,500	₱566,615,510	₱2,778,216	₱285,397	₱299,671,444	₱1,331,763,067
Net income for the year	–	–	–	–	–	78,757,407	78,757,407
Other comprehensive income	–	–	–	23,555,226	1,290,722	–	24,845,948
Total comprehensive income	–	–	–	23,555,226	1,290,722	78,757,407	103,603,355
Subscription of capital stock (Note 16)	–	48,125,000	–	–	–	–	48,125,000
Stock dividend declaration (Note 16)	125,000,000	–	(125,000,000)	–	–	–	–
Balance at December 31, 2017	₱470,000,000	₱165,537,500	₱441,615,510	₱26,333,442	₱1,576,119	₱378,428,851	₱1,483,491,422

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱83,171,585**	₱102,402,076
Adjustments for:		
Interest income (Note 18)	**(44,866,233)**	(38,825,073)
Pension expense (Notes 20 and 21)	**6,147,492**	5,840,116
Depreciation and amortization (Notes 10 and 20)	**3,241,043**	3,613,453
Gain on sale of AFS financial assets (Note 6)	**(2,188,181)**	(3,270,587)
Impairment loss (Notes 6 and 20)	**5,923,487**	1,700,139
Amortization of premium (Note 6)	**111,142**	208,094
Changes in fair value of financial assets at FVPL (Notes 6 and 18)	**16,276,834**	474,187
Unrealized foreign exchange loss (gain)	**(3,045,123)**	419,649
Interest expense (Note 14)	**495,013**	452,216
Dividend income (Note 18)	**(15,558,587)**	(12,664,013)
Provision for claims IBNR, CHE and MfAD (Note 13)	**11,275,170**	1,690,051
Operating income before changes in working capital	**60,983,642**	62,040,308
Decrease (increase) in:		
Insurance receivables	**(119,361,693)**	(175,666,547)
Financial assets at FVPL	**1,748,096**	(13,837,798)
Loans and receivables	**26,141,248**	(47,262,341)
Reinsurance assets	**(89,320,166)**	177,504,782
Deferred acquisition costs	**(3,850,907)**	6,730,276
Other assets	**(15,637,774)**	3,162,310
Increase (decrease) in:		
Insurance contract liabilities	**137,417,974**	(156,353,130)
Accounts payable and accrued expenses	**40,942,070**	38,802,845
Insurance payables	**71,850,937**	40,080,481
Deferred reinsurance commission	**3,114,433**	(5,944,638)
Net cash provided by (used in) operations	**114,027,860**	(70,743,452)
Contributions to plan assets (Note 21)	**(10,318,996)**	(10,038,376)
Income taxes paid	**(13,258,951)**	(12,863,964)
Interest paid	**(495,013)**	(452,216)
Net cash provided by (used in) operating activities	**89,954,900**	(94,098,008)
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received	**14,670,491**	12,664,013
Interest received	**43,117,983**	37,424,376
Proceeds from sale/maturity of AFS financial assets (Note 6)	**53,329,412**	108,715,448
Proceeds from sale of property and equipment (Note 10)	**496,889**	606,190
Acquisitions of:		
AFS financial assets (Note 6)	**(99,721,981)**	(127,399,690)
Property and equipment (Note 10)	**(6,496,880)**	(608,521)
Net cash provided by investing activities	**5,395,914**	31,401,816
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid (Notes 16 and 28)	**(45,449,955)**	(60,312,702)
Proceeds from capital stocks subscription (Note 16)	**–**	48,125,000
Net cash used in financing activities	**(45,449,955)**	(12,187,702)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENT	**3,898,214**	(82,358)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**53,799,073**	(74,966,252)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 4)	**483,194,558**	558,160,810
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱536,993,631**	₱483,194,558

See accompanying Notes to Financial Statements.

ALLIEDBANKERS INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Alliedbankers Insurance Corporation (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 2010 primarily to engage in the business of non-life insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events and to act as agent to other insurance or surety companies, or any of its branches, including life insurance. It includes lines such as health, accident, fire and allied lines, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks.

The registered office address of the Company is 17th Floor Federal Tower Condominium, Dasmariñas St. corner Muelle de Binondo, Binondo, Manila.

The accompanying financial statements were authorized for issuance by the Board of Directors (BOD) on April 12, 2019.

Combination/merger/acquisition of PNB General Insurers, Inc. ("PNB Gen")
On October 11, 2017, the BOD approved the combination/merger/acquisition by the Company of PNB Gen by way of share swap or combination of share swap and cash, subject to regulatory compliance and acceptable independent valuation ranges. The exchange has obtained regulatory and other necessary approvals and are currently completing closing conditions.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and fair value through profit or loss (FVPL) which have been measured at fair value.

The Company's presentation and functional currency is the Philippine peso (₱). All amounts are rounded off to the nearest peso unit, unless otherwise indicated.

The Company presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve (12) months after the reporting date and more than twelve (12) months after the reporting date is presented in Note 27.

The financial statements provide comparative information in respect of the previous period.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to PFRSs which are effective beginning on or after January 1, 2018. The Company did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, these new and revised accounting standards have no impact to the Company.

- *New and Amended Standards*
  - Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
  - Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- *Annual Improvements to PFRSs (2014-2017 Cycle)*
  - Amendments to Philippine Accounting Standard (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)*
  - Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39*, Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Company meets the eligibility criteria of the temporary exemption from PFRS 9 and intends to defer the application of PFRS 9 until the effective date of the new insurance contracts standard (PFRS 17) of annual reporting periods beginning on or after January 1, 2022, applying the temporary exemption from applying PFRS 9 as introduced by the amendments to PFRS 4 (see below).

- 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.

  The Company applies the temporary exemption from PFRS 9 as permitted by the amendments to PFRS 4 *Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* issued in September 2016. The temporary exemption permits the Company to continue applying PAS 39 rather than PFRS 9 for annual periods beginning before January 1, 2022. The Company concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As at December 31, 2015, the Company's gross liabilities arising from insurance activities represented 91.63% of the total carrying amount of all its liabilities. Since December 31, 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

The following table presents an analysis of the fair value of classes of financial assets as of December 31, 2018, as well as the corresponding change in fair value for the year ended December 31, 2018. In the following table, the amortized cost of cash and cash equivalents, insurance receivables and loans and receivables has been used as a reasonable approximation to fair value.

The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and
- All financial assets other than those specified in SPPI above (i.e. those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis)

	SPPI financial assets		Other financial assets	
	Fair value	Change in fair value	Fair value	Change in fair value
Cash and cash equivalents	₱536,993,631	₱–	₱–	₱–
Insurance receivables	577,316,724	–	–	–
Financial assets at FVPL	–	–	220,683,979	(16,276,834)
AFS financial assets	559,200,606	20,632,366	168,514,903	5,628,497
Loans and receivables	174,559,592	–	–	–

The following table shows the carrying amount of the SPPI assets included in the table above by credit risk rating grades reported to key management personnel. The carrying amount is measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before impairment allowance.

	Investment grade	Non-investment grade	Past due or impaired	Total
Cash and cash equivalents	₱536,993,631	₱–	₱–	₱536,993,631
Insurance receivables	–	191,787,246	394,274,770	586,062,016
AFS financial assets	559,200,606	–	–	559,200,606
Loans and receivables	159,000,000	15,559,592	–	174,559,592

The following table provides information on the fair value and carrying amount under PAS 39 for those SPPI assets that do not have low credit risk as determined by the Company. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown is before any allowance for impairment loss

	Carrying amount	Fair value
Cash and cash equivalents	₱536,993,631	₱536,993,631
Insurance receivables	191,787,246	191,787,246
AFS financial assets	559,200,606	559,200,606
Loans and receivables	174,559,592	174,559,592

- PFRS 15, *Revenue*
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is 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.

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

The new revenue standard is applicable to all entities and supersedes all current revenue recognition requirements under PFRSs.

The adoption of PFRS 15 did not have a significant impact on the Company's financial statements.

Product Classification

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

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

Foreign Currency Transactions and Translations

Transactions in foreign currencies are initially recorded in Philippine peso at exchange rate at the date of the transaction. Outstanding foreign currency denominated monetary assets and liabilities are retranslated at the closing exchange rate at the reporting date. Outstanding foreign currency denominated nonmonetary items that are measured in terms of historical cost are translated using the exchange rate at the date of initial transaction and are not subsequently restated. Outstanding foreign currency denominated nonmonetary items measured at fair value are translated using the exchange rate at the date when the fair value was determined. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other comprehensive income.

Fair Value Measurement

The Company measures financial instruments, including AFS financial assets and financial assets at FVPL, at fair value at each reporting date.

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 by 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 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 statements 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) at the end of each reporting period.

Cash and Cash Equivalents
Cash and cash equivalents are carried in the statement of financial position at face amount or nominal amount. Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value and are free of any encumbrances.

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

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

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

Initial recognition
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). The initial measurement of financial assets includes transaction costs except for financial assets at fair value through profit or loss (FVPL).

The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, held-to-maturity (HTM) investments, and loans and receivables. The Company classifies its financial liabilities 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 reporting period.

As of December 31, 2018 and 2017, the Company's financial instruments include AFS financial assets, financial assets at FVPL, 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' profit or loss) in profit or loss 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 profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets 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 debt securities are reported as interest income using the effective interest method. Dividends earned on holding AFS equity securities are recognized in profit or loss as dividend income when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported in the statement of comprehensive income. Losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss

When the fair value of AFS financial assets 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, less any allowance for impairment loss.

Loans and receivables
Loans and receivables are non-derivative 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, nor designated as AFS financial assets or at financial assets at FVPL.

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. Amortization is included in the interest income in profit or loss. The losses arising from impairment of such loans and receivables are recognized in the profit or loss.

Other financial liabilities
Issued financial instruments or their components, which are not held for trading or designated as FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no significant insurance risk.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2018 and 2017, the Company's other financial liabilities include insurance contract liabilities, insurance payables, accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other accounting standards, such as provisions, pension liability and income tax payable).

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

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

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- if the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

<u>Offsetting of Financial Instruments</u>
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 is 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 counter parties.

<u>Impairment of Financial Assets</u>
The Company assesses at every end of the reporting date 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 interest or principal 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.

AFS financial assets 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 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 profit or loss) is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, 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 profit or loss. If, in a subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit of loss, the impairment loss is reversed through profit or loss.

AFS financial assets carried at cost
If there is objective evidence that an impairment loss has been incurred 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, 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.

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 an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses 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 a difference between the assets' carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the date of reversal.

Derecognition of Financial Assets and 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 derecognized when:

- the right to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) 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 right to receive cash flows from an asset or has entered into a 'pass-through' arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. 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 the consideration that the Company could be required to repay.

Financial liability

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

Reinsurance Assets

The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balance 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 exist 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. Any impairment loss is charged against profit or loss.

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. 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, which are included under "Insurance payables" in the statement of financial position. 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 rights are extinguished or expired, or when the contract is transferred to another party.

Deferred Acquisition Costs and Deferred Reinsurance Commission

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

Subsequent to initial recognition, these costs are amortized using the 24th method. Amortization is charged to profit or loss. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the statement of financial position. Reinsurance commissions are deferred and shown in the statement of financial position as "Deferred reinsurance commissions", subject to the same amortization method as the related acquisition costs.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation 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 against the profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Condominium units	50
Furniture, fixtures and equipment	10
Electronic data processing (EDP) equipment	5-10
Leasehold improvements	10 or the term of the lease, whichever is shorter
Transportation equipment	3-5

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

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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.

Fully depreciated assets are retained in accounts until they no longer in use and no further depreciation is credited or charged against current operations.

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 profit or loss in the year the item is derecognized.

Impairment of Non-Financial Assets
At each reporting period, the Company assesses whether there is any indication that nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed for the cash generating unit to which the asset belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) 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 (or cash generating unit). An impairment loss is charged against operations in the year in which it arises.

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 such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. 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 periods. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization expense is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Creditable Withholding Taxes
Creditable withholding pertains to the taxes paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. Creditable withholding taxes are recorded at cost as "Other Assets" in the statement of financial position.

At each end of the tax reporting deadline, creditable withholding taxes may either be offset against future income tax payable or be claimed as a refund from taxation authorities at the option of the Company. If creditable withholding taxes are claimed as a refund, these will be recorded as a receivable under "Loans and receivable" in the statement of financial position.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of creditable withholding taxes. If any indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. The Company provides the unrecoverable creditable withholding taxes through valuation account. Factors which primarily affect the recoverability of these assets include the completeness of the supporting documentation (certificates of creditable tax withheld at source subject to rules on Philippine income taxation). A review to determine the adequacy of allowance is made by the Company on a continuing basis year on year.

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

Provisions for claims reported, provision for claims Incurred But Not Reported (IBNR) losses, claims handling expense (CHE) and Margin for Adverse Deviation (MfAD)
Provisions for claims reported are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, 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 end of each reporting date. The liability is not discounted for the time value of money.

Provision for claims IBNR pertains to amount provided for claim events that have occurred but have not been reported to the Company as of the reporting date. The provision for claims IBNR at each reporting date is calculated by an independent actuary accredited by the IC using standard actuarial projection techniques (or combination of such techniques), including but not limited to the chain ladder method, the expected loss ratio approach, and the Bornhuetter-Fergusion method. The actuary determines the appropriateness of the method used by considering the characteristics of the Company's claims data and other factors such as maturity of the business, large losses arising from significant past events, operational changes in claims and underwriting processes and external conditions.

The Company shall include an MfAD to allow for inherent uncertainty of the best estimate of the policy reserves which shall be determined by an independent actuary at least on an annual basis 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 75% level of sufficiency.

Provision for CHE is also calculated by the actuary to cover estimated expenses of settling all claims, both reported and unreported, outstanding as of the reporting date.

Quarterly, an actuarial valuation is performed on the gross and net claims and premium liabilities to ensure that the reserves are in compliance with the Valuation Standards for Non-Life Insurance Policy Reserves as required by the IC guided by Sections 219 and 220 of the Amended Insurance Code (Republic Act (RA) No. 10607) along with Circular Letters No. 2018-18 and No. 2018-19. Additional reserves are set up if the result of the actuarial investigation shows that the existing balances are not in accordance with the mandate of IC.

Premium liabilities
Premium liabilities is equal to the provision for unearned premiums plus the difference between the provision for unexpired risk and the provision for unearned premiums, net of deferred acquisition costs, if the provision for unexpired risk is greater than the provision for unearned premiums net of Deferred acquisition costs. Otherwise, it is equal to the provision for unearned premiums.

Provision for unearned premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in statement of financial position.

The change in the provision for unearned premiums is taken to profit or loss in the 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 unexpired risk
Provision for unexpired risk is the best estimate that relates to expected future claim payments and related expenses to be incurred after the valuation date, arising from future events. This shall be calculated as the best estimate of future claims and expenses for all classes of business, with MfAD.

Liability adequacy test
At each reporting date, liability adequacy test is performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of all contractual cash flows, claims and claims handling cost. If the test shows that the liability is inadequate, the entire deficiency is recognized in profit or loss.

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

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

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

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

Value-Added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Equity
Capital stock
Capital stock represents the value of shares that have been issued at par. The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of the transaction and are deducted first from additional paid-in-capital

Contributed surplus
Contributed surplus represents the original contribution of the stockholders of the Company, in addition to the paid-up capital stock.

Retained earnings
Retained earnings represent the cumulative balance of net income or loss of the Company, effects of any change in accounting policy and other adjustment affecting the account such as dividend distribution.

Revenue Recognition
Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

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 a principal in all of its revenue arrangements.

Other income
Income from other sources is recognized when earned.

The Company has assessed that there is no difference in accounting for other income under PFRS 15 and PAS 18.

The following revenue accounts are outside the scope of PFRS 15:

Premiums
Gross insurance written premiums comprise the total premiums receivable for the whole cover period provided by contracts entered into during the reporting period. Premiums include any adjustments arising in the reporting period for premium receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at the end of the reporting period are accounted for as provision for unearned premiums and is presented under "Insurance contract liabilities" in 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 under "Reinsurance assets" in the statement of financial position. The net changes in these accounts between reporting dates are credited or charged against profit or loss for the year.

Commission income
Reinsurance commissions are recognized as revenue over the period of the contracts using the 24^{th} method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as "Deferred reinsurance commissions" in the statement of financial position.

Interest income
Interest income is recognized in the profit or loss as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest method.

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

Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

The following specific recognition criteria must also be met before revenue is recognized:

Benefits and claims
Benefits and claims consist of benefits and claims paid to policyholders and which include changes in valuation of insurance contract liabilities, except for changes in the provision for unearned premiums which are included in net earned premiums. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered and are offset against related claims. Insurance claims are recorded on the basis of notifications received.

Commission expense
Commissions incurred from short-duration insurance contracts are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as "Deferred Acquisition Cost" and presented in the asset section of the statement of financial position.

Underwriting expense and general and administrative expense
These expenses are recognized in profit or loss as they are incurred.

Interest expense
Interest expense is recognized as incurred, taking into account the effective yield of the liabilities.

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 term, 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 above, and at the date of renewal or extension period for scenario b.

Company as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset is classified as an operating lease. Fixed lease payments are recognized as an expense in profit or loss on a straight-line basis while the variable rent is recognized as an expense based on terms of the lease contract.

Income Tax
Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income 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 this amount are those that have been enacted or substantially enacted as of the end of the reporting period.

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including assets revaluations, with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences, carryforward of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting income nor taxable income or loss.

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

Deferred tax assets and liabilities are measured at the tax rate that are applicable 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 substantially enacted as of end of the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in the rates are charged against or credited to profit or loss for the period.

Deferred income tax relating to items recognized in other comprehensive income is also recognized in other comprehensive income and not in profit or loss.

Deferred income 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 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 and the expense relating to any provision is presented in profit or loss 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 assessment of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 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 benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in profit or loss.

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

Future Changes in Accounting Policies
Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing consists of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these

standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended standards and interpretations to have significant impact on their financial statements.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the leased assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

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

  When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  Under PFRS 9, a debt instrument can be measured at amortized cost or at FVOCI, 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.

- 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 statement of income. 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 OCI.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
  This addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 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.

- *Annual Improvements to PFRS* 2015 to 2017 Cycle
  - PAS 12, *Income Taxes* - *Income tax consequence of payments on financial instruments classified as equity*
    The amendments clarify that the requirements to recognize the income tax consequence of dividends where the transactions or events that generate distributable profits are recognized apply to all income tax consequences of dividends.
  - PAS 23, *Borrowing Costs - Borrowing costs eligible for capitalization*
    The amendments clarify that a specific borrowing that remains outstanding after the related asset is ready for its intended use becomes part of the general borrowings when calculating the capitalization rate on general borrowings.

Effective beginning on or after January 1, 2020 (subject to Board of Accountancy's Approval)

- 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 (subject to Board of Accountancy's Approval)

- PFRS 17*, Insurance Contracts*
  PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2022. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15. The Company is still assessing the impact of adopting this standard.

3. **Significant Accounting Judgments and Estimates**

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

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

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

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

Classification of financial instruments
The Company classifies a financial instrument depending on the purpose for which the financial instruments was acquired or originated. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

In addition, the Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

The classification of the Company's financial instrument by categories is shown in Note 6.

Operating lease commitments – company as lessee
The Company has entered into commercial property leases with various lessors. The Company has determined that the lessors retain all the significant risks and rewards of ownership of the leased properties thus accounts for them as operating leases. Accordingly, these agreements are accounted for as operating leases (see Note 25).

Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of insurance contract liabilities
Estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting date and for the expected ultimate cost of claims IBNR at the end of the reporting date. It can take a significant period of time before the ultimate claim cost can be established with certainty. Non-life liabilities are not discounted for the time value of money.

The main assumption underlying estimation of the claims provision is that a company's past claim 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 claims types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

In addition to the use of loss development triangles per class of business as basis for projection of future claims, the independent actuary also considers the information gathered from the Company's Underwriting and Claims Departments in the actuarial computation of the policy reserves including claims IBNR and ultimate cost of CHE. This information include, among others, large loss experience, concerns and uncertainties, operation changes in claims and underwriting processes, and external conditions such as market outlook, inflation and current catastrophes.

The carrying value of claims reported and IBNR included in the insurance contract liabilities account amounted to ₱296.16 million and ₱221.46 million as of December 31, 2018 and 2017, respectively (see Note 13).

Impairment of AFS financial assets
The Company assesses its AFS financial assets for impairment when there has been a significant or prolonged decline in the fair value below cost. This determination of what is significant or prolonged requires judgment. The Company treats 'significant' generally as 30% or more of the original cost of investment, and 'prolonged' as being more than twelve (12) months. In making this judgment, the Company evaluates, among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The carrying value of the Company's AFS equity financial assets amounted to ₱168.51 million and ₱162.89 million as of December 31, 2018 and 2017, respectively. The Company recognized impairment loss on its investment in equity securities amounting to ₱5.92 million and ₱1.70 million in 2018 and 2017, respectively (see Note 6).

In case of AFS debt securities, impairment is assessed based on the same criteria as financial assets at amortized cost. An amount comprising the difference between its cost, net of any principal payment and amortization, and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate on interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in profit or loss. 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 profit or loss, the impairment loss is reversed through profit or loss.

The carrying values of AFS debt securities amounted to ₱559.20 million and ₱538.57 million as of December 31, 2018 and 2017, respectively. The Company did not recognize impairment loss on its debt securities in 2018 and 2017 (see Note 6).

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

The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous 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 credit losses would increase recorded expenses and decrease the assets' carrying values.

The carrying value of insurance receivables amounted to ₱577.32 million and ₱457.96 million as of December 31, 2018 and 2017, respectively (see Note 5). The allowance for credit losses amounted to ₱8.75 million as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the carrying value of loans and receivables amounted to ₱174.56 million and ₱199.81 million, respectively. The Company did not recognize allowance for credit losses on loans and receivables in 2018 and 2017 (see Note 6).

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

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

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

As of December 31, 2018 and 2017, the carrying value of property and equipment amounted to ₱24.47 million and ₱21.71 million, respectively. The Company did not recognize impairment loss on its property and equipment in 2018 and 2017 (see Note 10).

Recognition of deferred tax assets
Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that the taxable profit will be available against which these 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.

As of December 31, 2018 and 2017, the Company recognized deferred tax assets amounting to ₱17.32 million and ₱15.51 million, respectively (see Note 22).

Pension benefits
The determination of obligation and cost of pension benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate. In accordance with PFRS, actual results that differ from the Company's assumptions are recognized outright in the statement 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.

As of December 31, 2018 and 2017, net pension asset amounted to ₱0.96 million and net pension liability amounted to ₱7.50 million, respectively (Note 21).

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 does not believe these proceedings will have a material adverse effect on the Company's financial position.

4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	**₱44,900**	₱44,900
Cash in banks (Note 24)	**266,932,791**	177,853,363
Cash equivalents (Note 24)	**270,015,940**	305,296,295
	₱536,993,631	₱483,194,558

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earned interest at annual rates that ranged from 1.00%% to 7.50% and from 0.30% to 5.50% in 2018 and 2017, respectively (Note 18).

5. Insurance Receivables

This account consists of:

	2018	2017
Premiums receivable	**₱338,557,679**	₱279,625,280
Reinsurance recoverable on paid losses	**139,163,609**	118,063,484
Due from ceding companies	**62,277,235**	29,410,460
Commissions receivable	**37,358,427**	27,061,853
Fund held by ceding companies	**8,705,066**	12,539,246
	586,062,016	466,700,323
Less: allowance for credit losses	**8,745,292**	8,745,292
	₱577,316,724	₱457,955,031

The aging analysis of insurance receivable as of December 31 follows:

	2018					
	Less than 30 days	**31 to 60 days**	**61 to 120 days**	**121 to 180 days**	**More than 180 days**	**Total**
Premiums receivable	**₱48,950,872**	**₱49,656,074**	**₱41,511,534**	**₱35,158,318**	**₱163,280,881**	**₱338,557,679**
Reinsurance recoverable on paid losses	**2,223,872**	**18,995,660**	**2,568,370**	**10,962,044**	**104,413,663**	**139,163,609**
Due from ceding companies	**16,001,616**	**15,061,953**	**4,879,943**	**2,303,252**	**24,030,471**	**62,277,235**
Commissions receivable	**4,512,108**	**3,727,724**	**8,733,581**	**3,448,729**	**16,936,285**	**37,358,427**
Funds held by ceding companies	**–**	**–**	**4,706**	**9,412**	**8,690,948**	**8,705,066**
	₱71,688,468	**₱87,441,411**	**₱57,698,134**	**₱51,881,755**	**₱317,352,248**	**₱586,062,016**

	2017					
	Less than 30 days	31 to 60 days	61 to 120 days	121 to 180 days	More than 180 days	Total
Premiums receivable	₱51,630,473	₱54,405,973	₱34,777,777	₱22,755,790	₱116,055,267	₱279,625,280
Reinsurance recoverable on paid losses	2,593,357	2,169,614	2,922,157	41,633,126	68,745,230	118,063,484
Due from ceding companies	2,062,295	1,016,207	2,711,573	6,347,874	17,272,511	29,410,460
Commissions receivable	4,916,848	1,692,273	4,004,785	4,286,972	12,160,975	27,061,853
Funds held by ceding companies	3,986	3,986	46,378	84,784	12,400,112	12,539,246
	₱61,206,959	₱59,288,053	₱44,462,670	₱75,108,546	₱226,634,095	₱466,700,323

As of December 31, 2018 and 2017, allowance for doubtful accounts for insurance receivables follows:

	Premiums receivable	Due from ceding companies	Reinsurance recoverable on paid losses	Total
Balance at beginning and end of year	₱4,599,194	₱852,181	₱3,293,917	₱8,745,292

6. Financial Assets

As of December 31, 2018 and 2017, the Company’s financial assets are summarized by measurement categories as follows:

	2018	2017
Financial assets at FVPL	**₱220,683,979**	₱238,708,909
AFS financial assets	**727,715,509**	701,454,646
Loans and receivables	**174,559,592**	199,812,744
	₱1,122,959,080	₱1,139,976,299

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

Financial assets at FVPL
This account consists of quoted preferred shares and peso-denominated term notes. These financial assets were designated as at FVPL at initial recognition. The decline in the fair value of financial assets at FVPL amounted to ₱16.28 million and ₱0.47 million in 2018 and 2017, respectively, reported under ‘Investment income – net’ in the statements of income. (Note 18).

AFS financial assets
This account consists of the following:

	2018	2017
Government debt securities	**₱178,137,358**	₱166,591,745
Private debt securities	**381,063,248**	371,976,495
Equity securities:		
Listed common shares – net of allowance for impairment losses amounting to ₱40.60 million and ₱34.70 million as of December 31, 2018 and 2017, respectively	**167,494,903**	161,866,406
Private common shares	**1,020,000**	1,020,000
	₱727,715,509	₱701,454,646

The cost of AFS financial assets are as follows:

	2018	2017
Government debt securities	**₱190,200,000**	₱160,688,531
Private debt securities	**401,008,858**	350,554,446
Equity securities:		
Listed common shares	**164,954,168**	162,858,227
Private common shares	**1,020,000**	1,020,000
	₱757,183,026	₱675,121,204

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

	2018	2017
Balance at beginning of year	**₱701,454,646**	₱657,852,824
Additions	**99,721,982**	127,399,690
Disposal/maturities	**(53,329,412)**	(108,715,448)
Amortization of premium	**(111,143)**	(208,094)
Changes in fair value of AFS financial assets	**(20,020,564)**	25,125,674
Balance at end of year	**₱727,715,509**	₱701,454,646

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

	2018	2017
Balance at beginning of year	**₱26,333,442**	₱2,778,216
Change in fair value of AFS financial assets	**(20,020,564)**	25,125,674
Transferred to profit and loss:		
Impairment loss (Note 20)	**5,923,487**	1,700,139
Gain on sale of AFS financial assets	**(2,188,181)**	(3,270,587)
Balance at end of year	**₱10,048,184**	₱26,333,442

In 2018 and 2017, provision for impairment losses amounting to ₱5.92 million and ₱1.70 million pertains to investments in listed equity securities (Note 20).

In 2018 and 2017, dividend income from investments in equity securities amounted to ₱15.56 million and ₱12.66 million, respectively (Note 18).

Loans and receivables
This account consists of the following:

	2018	2017
Accounts receivable	**₱15,515,131**	₱40,168,353
Money market placements	**159,000,000**	159,000,000
Advances to employees	**44,461**	644,391
	₱174,559,592	₱199,812,744

Money market placements are composed of time deposits which have been acquired with original maturities of more than three months. These time deposits earn annual interest ranges from 3.25% to 5.50% in 2018 and 2017 and with maturity dates from 2019 to 2023. Interest income from money market placements amounted to ₱3.35 million and ₱3.36 million in 2018 and 2017, respectively.

7. Accrued Income

This account consists of accrued interest on the following accounts:

	2018	2017
Cash and cash equivalents	**₱8,388,178**	₱6,751,820
AFS financial assets	**350,111**	238,219
Loans and receivables	**584,967**	584,967
	₱9,323,256	₱7,575,006

8. Reinsurance Assets

This account consists of:

	2018	2017
Reinsurance recoverable on unpaid losses (Note 13)	**₱210,868,540**	₱158,882,108
Deferred reinsurance premiums (Note 13)	**157,222,816**	129,424,906
	₱368,091,356	₱288,307,014

9. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The rollforward analysis of deferred acquisition costs follows:

	2018	2017
Balance at beginning of year	**₱22,686,781**	₱29,417,057
Cost deferred during the year	**58,674,945**	50,960,186
Cost incurred during the year	**(54,824,038)**	(57,690,462)
Balance at end of year	**₱26,537,688**	₱22,686,781

The rollforward analysis of deferred reinsurance commissions follows:

	2018	2017
Balance at beginning of year	**₱11,592,286**	₱17,536,924
Income deferred during the year	**40,210,231**	31,181,926
Income earned during the year	**(37,095,798)**	(37,126,564)
Balance at end of year	**₱14,706,719**	₱11,592,286

10. **Property and Equipment – net**

The composition of and movements of this account follows:

	2018					
	Condominium units	**Furniture, fixtures and equipment**	**EDP equipment**	**Leasehold improvements**	**Transportation equipment**	**Total**
Cost						
Balance at beginning of year	**₱24,721,098**	**₱2,566,337**	**₱11,457,861**	**₱3,823,954**	**₱3,039,284**	**₱45,608,534**
Additions	**–**	**258,929**	**717,058**	**65,000**	**5,455,893**	**6,496,880**
Disposals	**–**	**–**	**–**	**–**	**(1,233,929)**	**(1,233,929)**
Balance at end of year	**24,721,098**	**2,825,266**	**12,174,919**	**3,888,954**	**7,261,248**	**50,871,485**
Accumulated depreciation						
Balance at beginning of year	**₱12,236,943**	**₱657,337**	**₱9,240,689**	**₱527,440**	**₱1,234,668**	**₱23,897,077**
Depreciation (Note 20)	**494,422**	**269,492**	**916,865**	**395,395**	**1,164,869**	**3,241,043**
Disposals	**–**	**–**	**–**	**–**	**(737,040)**	**(737,040)**
Balance at end of year	**12,731,365**	**926,829**	**10,157,554**	**922,835**	**1,662,497**	**26,401,080**
Net book value	**₱11,989,733**	**₱1,898,437**	**₱2,017,365**	**₱2,966,119**	**₱5,598,751**	**₱24,470,405**

	2017					
	Condominium units	Furniture, fixtures and equipment	EDP equipment	Leasehold improvements	Transportation equipment	Total
Cost						
Balance at beginning of year	₱24,721,098	₱2,529,928	₱10,885,748	₱3,953,954	₱3,753,570	₱45,844,298
Additions	–	36,409	572,113	–	–	608,522
Disposals	–	–	–	(130,000)	(714,286)	(844,286)
Balance at end of year	24,721,098	2,566,337	11,457,861	3,823,954	3,039,284	45,608,534
Accumulated depreciation						
Balance at beginning of year	11,742,521	412,164	7,429,607	132,045	805,382	20,521,719
Depreciation (Note 20)	494,422	245,173	1,811,082	395,395	667,381	3,613,453
Disposals	–	–	–	–	(238,095)	(238,095)
Balance at end of year	12,236,943	657,337	9,240,689	527,440	1,234,668	23,897,077
Net book value	₱12,484,155	₱1,909,000	₱2,217,172	₱3,296,514	₱1,804,616	₱21,711,457

The cost of fully depreciated property and equipment still in use amounted to ₱2.21 million and ₱3.61 million as of December 31, 2018 and 2017, respectively.

11. **Other Assets**

This account consists of:

	2018	2017
Escrow fund	**₱43,029,100**	₱40,000,000
Documentary stamps fund	**11,685,485**	–
Deferred input VAT	**4,192,300**	2,277,168
Creditable withholding taxes (CWT)	**1,520,013**	12,599,170
Miscellaneous deposits	**1,180,812**	1,178,637
Prepaid expenses	**333,876**	333,876
Input VAT	**–**	426,586
Others	**2,707,907**	1,279,237
	₱64,649,493	₱58,094,674

The escrow fund was established pursuant to the requirement of the Land Transportation Franchising and Regulatory Board (LTFRB) wherein the Company, being accredited for the Personal Passenger Accident Insurance Program (PPAI), is required to establish an escrow to guaranty the payment of the claims of insured Public Utility Vehicles. The escrow agreement was entered by the Company, LTFRB, and PNB Trust Banking Group (escrow agent) to set up a fund amounting to ₱40.00 million.

CWT pertain to the excess payments made against current income tax due which can be claimed against income tax in future periods. CWT applied for payment of the Company's income tax due in 2018 and 2017 amounted to ₱13.96 million and ₱15.26 million, respectively.

Deferred input VAT arises from purchases of goods and services from VAT registered suppliers which were not yet paid as of reporting date.

Miscellaneous deposits represent security rent deposits of branches and fund set aside as per requirement of the Supreme Court for the issuance of bonds for the Company's assured

Input VAT arises from purchases of goods and services from VAT-registered suppliers.

Prepaid expenses pertain to prepayments for various expenses.

Others pertain to security fund and stationery and supplies.

12. **Accounts Payable and Accrued Expenses**

This account consists of:

	2018	2017
Commissions payable	**₱99,423,432**	₱67,249,234
Accounts payable	**58,648,658**	60,529,914
Premium deposits	**36,714,879**	50,901,338
Output VAT	**3,699,664**	1,147,691
Deferred output VAT	**38,044,687**	28,509,127
Taxes payable	**33,911,827**	16,795,336
Accrued expenses	**10,091,137**	12,714,513
Others	**3,410,194**	5,155,255
	₱283,944,478	₱243,002,408

Commissions payable pertains to commissions to agents, brokers and ceding companies. These are to be settled within 90 days from policy issuance date.

Accounts payable and accrued expenses pertain to operating expenses of the Company which are non-interest bearing and due and demandable. These also include accruals for bonus.

Premium deposits pertain to collections from policyholders which were received but were not yet properly applied due to incomplete reference.

Deferred output VAT consists of VAT incurred from policy issuances where the corresponding premiums remain unpaid as of reporting date.

Taxes payable pertains to documentary stamps payable, withholding taxes payable, fire service tax payable and other taxes and licenses payable due for settlement.

Other liabilities mainly consist of payable to the Company's sub-agents which are non-interest bearing and due and demandable.

13. Insurance Contract Liabilities

Insurance contract liabilities may be analyzed as follows:

	2018			2017		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 8)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net
Provision for claims reported	**₱243,058,927**	**₱178,509,317**	**₱64,549,610**	₱170,101,835	₱116,987,061	₱53,114,774
Provision for claims IBNR, and MfAD	**53,100,916**	**32,359,223**	**20,741,693**	51,361,570	41,895,047	9,466,523
Total provision for claims reported and claims IBNR	**296,159,843**	**210,868,540**	**85,291,303**	221,463,405	158,882,108	62,581,297
Provision for unearned premiums	**298,510,980**	**157,222,816**	**141,288,164**	234,050,098	129,424,906	104,625,192
	₱594,670,823	**₱368,091,356**	**₱226,579,467**	₱455,513,503	₱288,307,014	₱167,206,489

The provision for claims reported and claims IBNR may be analyzed as follows:

	2018			2017		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 8)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net
Balance at beginning of year	**₱221,463,405**	**₱158,882,108**	**₱62,581,297**	₱300,637,892	₱242,872,047	₱57,765,845
Claims incurred during the year	**161,727,892**	**82,622,381**	**79,105,511**	62,141,476	10,201,673	51,939,803
Claims paid during the year (Note 19)	**(88,770,800)**	**(21,100,125)**	**(67,670,675)**	(166,877,886)	(118,063,484)	(48,814,402)
Increase (decrease) in IBNR and MfAD (Note 19)	**1,739,346**	**(9,535,824)**	**11,275,170**	25,561,923	23,871,872	1,690,051
Balance at end of year	**₱296,159,843**	**₱210,868,540**	**₱85,291,303**	₱221,463,405	₱158,882,108	₱62,581,297

The provision for unearned premiums may be analyzed as follows:

	2018			2017		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 8)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 8)	Net
Balance at beginning of year	**₱234,050,098**	**₱129,424,906**	**₱104,625,192**	₱267,643,643	₱181,044,702	₱86,598,941
Policies written during the year (Note 17)	**679,214,296**	**385,110,582**	**294,103,714**	534,106,932	329,261,163	204,845,769
Premiums earned during the year (Note 17)	**(614,753,414)**	**(357,312,672)**	**(257,440,742)**	(567,700,477)	(380,880,959)	(186,819,518)
Balance at end of year	**₱298,510,980**	**₱157,222,816**	**₱141,288,164**	₱234,050,098	₱129,424,906	₱104,625,192

14. **Insurance Payables**

This account consists of:

	2018	2017
Premiums due to reinsurers	**₱263,464,342**	₱209,222,109
Funds held for reinsurers	**37,792,229**	19,330,434
	₱301,256,571	₱228,552,543

Premiums due to reinsurers represent the reinsurance premiums due and payable by the Company to all its reinsurers whether by treaty or facultative.

Funds held for reinsurers represent the amount pertaining to a certain percentage of the total reinsurance premiums due within one (1) year from date of retention being held by the Company.

The rollforward analysis of insurance payable follows:

	2018		
	Premiums due to reinsurers	**Funds held for reinsurers**	**Total**
Balance at beginning of year	**₱209,222,109**	**₱19,330,434**	**₱228,552,543**
Arising during the year	**438,472,481**	**39,885,001**	**478,357,482**
Paid during the year	**(384,230,248)**	**(21,423,206)**	**(405,653,454)**
Balance at end of year	**₱263,464,342**	**₱37,792,229**	**₱301,256,571**

	2017		
	Premiums due to reinsurers	Funds held for reinsurers	Total
Balance at beginning of year	₱171,376,107	₱16,758,664	₱188,134,771
Arising during the year	481,262,872	43,563,269	524,826,141
Paid during the year	(443,416,870)	(40,991,499)	(484,408,369)
Balance at end of year	₱209,222,109	₱19,330,434	₱228,552,543

Interest expense on funds held for reinsurers amounted to ₱0.50 million and ₱0.45 million in 2018 and 2017, respectively.

The Company reversed premiums due to reinsurers amounting to ₱19.83 million in 2017. These reversals were recorded as part of "Other income" in the statements of income.

15. **Insurance Contract Liabilities and Reinsurance Assets – Terms, Assumptions and Sensitivities**

Terms and Conditions

The major classes of general insurance written by the Company include aviation, fire, surety, casualty, and engineering. Risks under these policies usually cover one-month to three-year periods.

For general insurance contracts, claims provisions (comprising provision for claims reported and claims IBNR) 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 lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims are usually assessed by loss adjusters.

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 general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions such as legislative change and uncertainty in the estimation process is not possible to quantify. As a result, the final liabilities may change as result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent financial statements.

The sensitivity analysis below is performed for a reasonably possible movement in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis.

	2018			
	Change in assumption	**Impact on gross insurance contract liabilities**	**Impact on net insurance contract liabilities**	**Impact on income before income tax**
Average claim costs	**+9.22%**	**₱22,159,219**	**(₱5,772,055)**	**(₱5,772,055)**
Average number of claims	**+18.90%**	**45,416,197**	**(11,830,056)**	**(11,830,056)**

	2017			
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	+16.00%	(₱27,995,363)	₱4,420,879	(₱4,420,879)
Average number of claims	+23.00%	(52,166,799)	2,306,597	(2,306,597)

Claims Development Tables

The tables in the next page show the development of claims over a period of time. These reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

The Company aims to maintain strong reserves in respect of its general insurance in order to protect against adverse future claims experience and development. As claims develop and ultimate costs of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years.

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net reinsurance basis:

	Gross insurance contract liabilities for 2018							
	2012 and prior	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate claim costs								
At the end of accident year	**₱583,960,067**	**₱80,895,723**	**₱126,221,480**	**₱183,096,949**	**₱226,914,246**	**₱185,555,200**	**₱257,842,370**	**₱257,842,370**
One year later	**107,831,449**	**64,449,819**	**66,103,256**	**113,393,160**	**95,650,913**	**80,547,563**	–	**80,547,563**
Two years later	**16,011,295**	**7,532,816**	**6,779,919**	**48,233,431**	**23,965,136**	–	–	**23,965,136**
Three years later	**12,275,605**	**2,067,430**	**30,000**	**47,659,984**	–	–	–	**47,659,984**
Four years later	**2,249,809**	–	**126,163**	–	–	–	–	**126,163**
Five years later	**123,568**	**15,981**	–	–	–	–	–	**15,981**
Six years later	**12,643**	–	–	–	–	–	–	**12,643**
Current estimate of cumulative claims	**12,643**	**15,981**	**126,163**	**47,659,984**	**23,965,136**	**80,547,563**	**257,842,370**	**410,169,840**
Cumulative payments to date	–	–	**51,988**	**8,845**	**19,671,609**	**49,267,998**	**45,009,557**	**114,009,997**
Total gross insurance contract liabilities in the statement of financial position	**₱12,643**	**₱15,981**	**₱74,175**	**₱47,651,139**	**₱4,293,527**	**₱31,279,565**	**₱212,832,813**	**₱296,159,843**

	Net insurance contract liabilities for 2018							
	2012 and prior	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimate of ultimate claim costs								
At the end of accident year	**₱104,346,545**	**₱46,624,536**	**₱38,701,315**	**₱31,041,306**	**₱47,784,542**	**₱73,141,896**	**₱105,939,336**	**₱105,939,336**
One year later	**75,034,062**	**34,056,153**	**28,731,609**	**19,492,864**	**36,379,292**	**38,061,088**	–	**38,061,088**
Two years later	**14,191,217**	**5,614,240**	**9,270,053**	**1,786,540**	**7,291,195**	–	–	**7,291,195**
Three years later	**9,754,101**	**1,367,788**	**20,000**	**1,541,423**	–	–	–	**1,541,423**
Four years later	**1,923,082**	–	**100,312**	–	–	–	–	**100,312**
Five years later	**115,708**	**15,981**	–	–	–	–	–	**15,981**
Six years later	**12,643**	–	–	–	–	–	–	**12,643**
Current estimate of cumulative claims	**12,643**	**15,981**	**100,312**	**1,541,423**	**7,291,195**	**38,061,088**	**105,939,336**	**152,961,978**
Cumulative payments to date	–	–	**36,137**	**8,845**	**3,698,919**	**29,477,830**	**34,448,944**	**67,670,675**
Total reinsurers' share on gross insurance contract liabilities in the statement of financial position	**₱12,643**	**₱15,981**	**₱64,175**	**₱1,532,578**	**₱3,592,276**	**₱8,583,258**	**₱71,490,392**	**₱85,291,303**

16. **Equity**

Capital stock
Details of the Company's common shares as of December 31, 2018 and 2017 follow:

	2018		2017	
	Number of shares	**Amount**	Number of shares	Amount
Authorized capital stock – ₱1 par value per share				
Balance at beginning of year	**1,000,000,000**	**₱1,000,000,000**	5,000,000	₱500,000,000
Increase in authorized capital stock and change in par value	–	–	995,000,000	500,000,000
Balance at end of year	–	–	1,000,000,000	1,000,000,000
Issued and fully paid:				
Balance at beginning of year	**470,000,000**	**470,000,000**	3,450,000	345,000,000
Change in par value	–	–	404,050,000	62,500,000
Issuance of capital stock	–	–	62,500,000	62,500,000
Balance at end of year	**470,000,000**	**470,000,000**	470,000,000	470,000,000
Subscribed:				
Balance at beginning of year		**165,537,500**		117,412,500
Settlement of subscription		–		48,125,000
Balance at end of year		**165,537,500**		165,537,500
Paid-up capital		**635,537,500**		635,537,500
Contributed surplus		**441,615,510**		441,615,510
		₱1,077,153,010		₱1,077,153,010

On July 28, 2017, the SEC approved the increase in authorized capital stock of the Company from 5,000,000 common shares at ₱100 par value per share to 1,000,000,000 common shares at ₱1 par value per share as approved by the Company's BOD on October 12, 2016 and ratified by its stockholders on December 14, 2016.

Contributed surplus amounting to ₱0.44 billion as of December 31, 2018 and 2017 represents the original contribution of the stockholders of the Company, in addition to the paid-up capital stock.

Cash dividends amounting to ₱19.24 million and ₱64.69 million remain outstanding as of December 31, 2018 and 2017, respectively, pertaining to cash dividends declared in 2016.

17. **Net Earned Premiums**

Total gross earned premiums on insurance contracts follows:

	2018	2017
Gross premiums written		
Direct	**₱620,432,618**	₱504,124,784
Assumed	**58,781,678**	29,982,148
Total gross premiums written	**679,214,296**	534,106,932
Gross change in provision for unearned premiums	**(64,460,882)**	33,593,545
Total gross earned premiums (Note 13)	**₱614,753,414**	₱567,700,477

Total reinsurers' share of gross earned premiums on insurance contracts follows:

	2018	2017
Reinsurers' share of gross premiums written		
Direct	**₱385,110,582**	₱329,261,163
Assumed	**–**	–
Total reinsurers' share of gross premiums written	**385,110,582**	329,261,163
Reinsurers' share of gross change in provision for unearned premiums	**(27,797,910)**	51,619,796
Total reinsurers' share of gross earned premiums (Note 13)	**₱357,312,672**	₱380,880,959

18. Investment Income – net

This account consists of:

	2018	2017
Interest income on:		
Cash and cash equivalents (Note 4)	**₱21,613,848**	₱15,393,492
AFS financial assets	**19,902,385**	20,073,339
Money market placements (Note 6)	**3,350,000**	3,358,242
Dividend income (Note 6)	**15,558,587**	12,664,013
Changes in fair value of financial assets at FVPL (Note 6)	**(16,276,834)**	(474,187)
	₱44,147,986	₱51,014,899

19. Net Insurance Benefits and Claims

Gross insurance contract benefits and claims paid:

	2018	2017
Direct	**₱73,555,624**	₱164,549,628
Assumed	**15,215,176**	2,328,258
	₱88,770,800	₱166,877,886

Reinsurers' share of gross insurance contracts benefits and claims paid:

	2018	2017
Direct	**₱15,793,640**	₱118,055,932
Assumed	**5,306,485**	7,552
	₱21,100,125	₱118,063,484

Gross change in insurance contract liabilities:

	2018	2017
Change in provision for claims reported:		
Direct	**₱80,736,595**	(₱104,736,410)
Assumed	**(7,779,503)**	–
	72,957,092	(104,736,410)
Provision for claims IBNR and MfAD	**1,739,346**	25,561,923
	₱74,696,438	(₱79,174,487)

Reinsurers' share of gross change in insurance contract liabilities:

	2018	2017
Change in provision for claims reported:		
Direct	**₱64,004,116**	(₱107,861,811)
Assumed	**(2,481,860)**	–
	61,522,256	(107,861,811)
Provision for claims IBNR and MfAD	**(9,535,824)**	23,871,872
	₱51,986,432	(₱83,989,939)

20. General and Administrative Expenses

This account consists of:

	2018	2017
Salaries and allowances (Note 24)	**₱48,997,998**	₱40,579,609
Professional and technical development	**11,677,787**	9,201,042
Pension expense (Note 21)	**6,147,492**	5,840,116
Impairment loss on AFS financial assets (Note 6)	**5,923,487**	1,700,139
Advertising, promotion and marketing expense	**5,656,189**	2,944,724
Board meeting expenses and directors' fees	**4,369,352**	4,205,882
Professional fees	**3,478,362**	2,577,207
Depreciation and amortization (Note 10)	**3,241,043**	3,613,453
Communication and postage	**1,727,222**	1,272,150
Taxes and licenses	**1,477,721**	5,193,866
Stationery and supplies	**1,243,083**	1,128,308
Transportation and travel	**1,216,148**	774,826
Social security and other contributions	**1,187,343**	1,029,492
Bank, trust and other fees	**1,101,388**	957,654
Light and water	**1,027,059**	826,824
Hospitalization contribution	**860,180**	686,492
Representation and entertainment	**816,004**	464,599
Association dues	**801,971**	663,887
Other employee benefits	**594,600**	906,062
Rent (Note 25)	**424,053**	431,247
Repair and maintenance	**291,507**	520,801
Insurance expense	**158,894**	47,091
Others	**7,555,581**	623,608
	₱109,974,464	₱86,189,079

Others include payments made to agency, books and periodicals, donations and contributions and premiums related to cancelled policies.

21. Pension Cost

The Company has an unfunded, non-contributory defined benefit retirement plan covering substantially all of its regular employees.

The following tables summarize the components of retirement costs recognized in the statements of income and pension obligation recognized in the statements of financial position:

	2018		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Total Net pension liability (asset)**
Balance at beginning of the year	**₱32,859,764**	**(₱25,362,938)**	**₱7,496,826**
Current service cost	**5,724,671**	**–**	**5,724,671**
Net interest expense (income)	**1,853,291**	**(1,430,470)**	**422,821**
Total pension expense (Note 20)	**7,577,962**	**(1,430,470)**	**6,147,492**
Actuarial gain on defined benefit obligation	**(5,439,611)**	**–**	**(5,439,611)**
Remeasurement loss on plan assets	**–**	**1,150,618**	**1,150,618**
Total remeasurement loss (gain) to other comprehensive income	**(5,439,611)**	**1,150,618**	**(4,288,993)**
Benefits paid	**(9,555,054)**	**9,555,054**	**–**
Contributions	**–**	**(10,318,996)**	**(10,318,996)**
Balance at the end of the year	**₱25,443,061**	**(₱26,406,732)**	**(₱963,671)**

	2017		
	Present value of defined benefit obligation	Fair value of plan assets	Total Net pension liability (asset)
Balance at beginning of the year	₱32,985,489	(₱19,446,515)	₱13,538,974
Current service cost	5,137,443	–	5,137,443
Net interest expense (income)	1,711,947	(1,009,274)	702,673
Total pension expense (Note 20)	6,849,390	(1,009,274)	5,840,116
Actuarial gain on defined benefit obligation	(2,445,717)	–	(2,445,717)
Remeasurement loss on plan assets	–	601,829	601,829
Total remeasurement loss (gain) to other comprehensive income	(2,445,717)	601,829	(1,843,888)
Benefits paid	(4,529,398)	4,529,398	–
Contributions	–	(10,038,376)	(10,038,376)
Balance at the end of the year	₱32,859,764	(₱25,362,938)	₱7,496,826

Details of accumulated remeasurement gain on defined benefit plan as of December 31 follows:

	2018	2017
Balance at beginning of year	**₱1,576,119**	₱285,397
Remeasurement gain recognized in other comprehensive income during the year	**4,288,993**	1,843,888
	5,865,112	2,129,285
Income tax effect	**(1,286,698)**	(553,166)
Balance at end of year	**₱4,578,414**	₱1,576,119

Pension expense and the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The latest actuarial valuation report is as of December 31, 2018.

The principal assumptions used to determine pension for the defined benefit plans follows:

	2018	2017
Discount rate	**7.39%**	5.64%
Salary increase rate	**10.00%**	10.00%
Average years of service	**7.25**	6.98

The discount rate used to determine the defined benefit obligation is determined by reference to the approximated zero-coupon yields of government bonds with remaining period to maturity approximating the estimated average duration of the benefit payment.

The salary increase rates take into consideration the prevailing inflation rate and company policy.

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 if all other assumptions were held constant:

	Change in	**Increase (decrease) in present value of defined benefit obligation**	
	variables	**2018**	2017
Discount rate	+0.50%	**(₱1,490,835)**	(₱1,875,810)
	-0.50%	**1,633,923**	2,064,139
Salary increase rate	+1.00%	**3,160,059**	3,897,301
	-1.00%	**(2,677,456)**	(3,308,174)

There were no significant changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2018	2017
Less than 1 year	**₱–**	₱–
More than 1 year to 5 years	**9,980,255**	11,262,536
More than 5 years to 10 years	**23,843,986**	22,449,327
More than 10 years to 15 years	**53,813,676**	43,035,972
More than 15 years to 20 years	**45,682,045**	43,035,972
More than 20 years	**701,795,675**	610,434,899

The Company expects to contribute at least ₱10.68 million to the define benefit plan in 2019.

The average expected future working lives of the employees of the Company is 23 years and 22 years as of December 31, 2018 and 2017, respectively.

The distribution of the plan assets as of December 31, 2018 and 2017 follows:

	2018		2017	
	Amount	**%**	Amount	%
Savings deposit	**₱2,065**	**0.01%**	₱5,434	0.02%
Investment in unit investment trust fund	**11,851,467**	**44.88%**	15,316,781	60.39%
Investment in government securities	**13,636,327**	**51.64%**	9,081,926	35.81%
Investment in corporate debt securities	**825,198**	**3.12%**	850,500	3.35%
Accrued interest	**120,484**	**0.46%**	108,297	0.43%
	26,435,541	**100.11%**	25,362,938	100.00%
Less: provision for credit losses	**(28,809)**	**-0.11%**	–	0.00%
	₱26,406,732	**100.00%**	₱25,362,938	100.00%

The carrying value of plan assets approximates their fair values as of December 31, 2018 and 2017.

22. Income Tax

a. Details of the provision for income tax follows:

	2018	2017
Current		
RCIT	**₱13,957,570**	₱15,256,497
Final	**8,384,335**	8,093,734
	22,341,905	23,350,231
Deferred	**(899,331)**	294,438
	₱21,442,574	₱23,644,669

b. Components of net deferred tax assets follow:

	2018	2017
Presented in profit or loss		
Deferred income tax assets on:		
Unamortized past service cost	**₱5,962,815**	₱5,798,777
Provision for claims IBNR, CHE and MfAD	**7,064,333**	4,038,158
Allowance for credit losses	**2,623,588**	2,623,588
Net pension asset/liability	**1,673,076**	2,924,527
Unrealized foreign exchange loss	**–**	125,895
	17,323,812	15,510,945
Deferred income tax liability on unrealized foreign exchange gain	**(913,536)**	–
	16,410,276	15,510,945
Presented in other comprehensive income		
Deferred income tax liability on remeasurement gains on defined benefit obligation	**(1,962,177)**	(675,479)
	₱14,448,099	₱14,835,466

Movements in net deferred tax assets comprise of:

	2018	2017
Balance at beginning of year	**₱14,835,466**	₱15,683,070
Deferred income tax recognized in profit or loss	**899,331**	(294,438)
Deferred income tax recognized in other comprehensive income	**(1,286,698)**	(553,166)
Balance at end of the year	**₱14,448,099**	₱14,835,466

c. The reconciliation of the statutory corporate income tax rate to the effective income tax rate follows:

	2018	2017
Statutory corporate income tax	**₱24,951,475**	₱30,720,623
Add (deduct) the tax effects of:		
Tax paid income	**(4,993,471)**	(3,616,216)
Non-deductible expenses	**1,925,550**	1,178,386
Non-taxable income	**(440,980)**	(4,638,124)
Effective income tax	**₱21,442,574**	₱23,644,669

d. RA No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of reporting date. Although the TRAIN changes existing tax laws and includes several provisions that will affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date.

23. Management of Insurance and Financial Risk

Governance Framework

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failure to exploit opportunities. The Company recognizes the importance of having efficient and effective risk management systems in place.

Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise).

Fair Value Measurement

As of December 31, 2018 and 2017, the carrying values of the Company's assets and liabilities as reflected in the statements of financial position and related notes approximate their respective fair values as of the statements of financial position date.

The methods and assumptions used by the Company in estimating the fair values of the financial instruments are as follows:

Cash and cash equivalents, insurance receivables, accrued income and loans and receivables
Due to the short-term nature of these accounts, the fair values approximate the carrying amounts as of the reporting date.

AFS financial assets and financial assets at FVPL
The fair values of equity securities that are actively traded in organized financial markets are determined using quoted market prices within the bid-offer price change at reporting date. Unquoted equity securities are carried at cost subject to impairment when the fair value could not be reliably determined.

Financial liabilities
The fair values of insurance contract liabilities, accounts payable and accrued expenses (excluding statutory liabilities) and insurance payables approximate their carrying values due to either the demandable feature or the relatively short-term maturities of these liabilities.

The fair value hierarchy of the Company's financial assets are summarized in the table below.

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL	**₱220,683,979**	**₱–**	**₱–**	**₱220,683,979**
AFS financial assets:				
Government debt securities	**178,137,358**	**–**	**–**	**178,137,358**
Private debt securities	**354,147,144**	**26,916,103**	**–**	**381,063,247**
Listed equity securities	**167,494,904**	**–**	**–**	**167,494,904**
	₱920,463,385	**₱26,916,103**	**₱–**	**₱947,379,488**

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets at FVPL	₱168,197,690	₱70,511,219	₱–	₱238,708,909
AFS financial assets				
Government debt securities	69,529,396	97,062,349	–	166,591,745
Private debt securities	349,505,219	22,471,276	–	371,976,495
Listed equity securities	161,866,406	–	–	161,866,406
	₱749,098,711	₱190,044,844	₱–	₱939,143,555

In 2018 and 2017, there were no transfers between Level 1 and Level 2 of fair value measurements, and no transfer into and out of Level 3 fair value measurement.

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

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

The Company manages the level of credit risk by setting up exposure limits for each counterparty or group of counterparties and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collaterals and guarantees; reporting of credit risk exposures; monitoring compliance with credit risk policy; and review of credit risk policy for pertinence and changing environment.

The Company sets the maximum amounts and limits that may be advanced to or placed with individual corporate counterparties which are set by reference to their long-term ratings.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are set off against amounts receivable from them to reduce the risk of doubtful accounts.

As of December 31, 2018 and 2017, the carrying values of the Company's financial instruments represent maximum exposure to credit risk as of reporting date.

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 as of December 31:

	2018			
	Neither past due nor impaired			
	Investment grade	**Non-investment grade**	**Past due or impaired**	**Total**
Loans and receivables:				
Cash and cash equivalents*	**₱536,948,731**	**₱–**	**₱–**	**₱536,948,731**
Insurance receivables:				
Premiums receivable	–	**123,034,092**	**215,523,587**	**338,557,679**
Reinsurance recoverable on paid losses	–	**23,787,270**	**115,376,338**	**139,163,608**
Due from ceding companies	–	**31,063,570**	**31,213,666**	**62,277,236**
Commissions receivable	–	**13,902,314**	**23,456,113**	**37,358,427**
Funds held by ceding companies	–	–	**8,705,066**	**8,705,066**
Accounts receivable	–	**15,515,131**	–	**15,515,131**
Advances to employees	–	**44,461**	–	**44,461**
Money market placements	**159,000,000**	–	–	**159,000,000**
Accrued income	**9,323,256**	–	–	**9,323,256**
Financial assets at FVPL	**220,683,979**	–	–	**220,683,979**
AFS financial assets:				
Government debt securities	**178,137,358**	–	–	**178,137,358**
Private debt securities	**381,063,248**	–	–	**381,063,248**
Listed common shares	**167,494,903**	–	–	**167,494,903**
Private common shares	**1,020,000**	–	–	**1,020,000**
	₱1,653,671,475	**₱207,346,838**	**₱394,274,770**	**₱2,255,293,083**

**excludes cash on hand*

	2017			
	Neither past due nor impaired			
	Investment grade	Non-investment grade	Past due or impaired	Total
Loans and receivables:				
Cash and cash equivalents*	₱483,149,658	₱–	₱–	₱483,149,658
Insurance receivables:				
Premiums receivable	–	123,144,649	156,480,631	279,625,280
Reinsurance recoverable on paid losses	–	7,685,128	110,378,356	118,063,484
Due from ceding companies	–	5,790,074	23,620,386	29,410,460
Commissions receivable	–	10,613,906	16,447,947	27,061,853
Funds held by ceding companies	–	54,349	12,484,897	12,539,246
Accounts receivable	–	40,168,353	–	40,168,353
Advances to employees	–	644,391	–	644,391
Money market placements	159,000,000	–	–	159,000,000
Accrued income	7,575,006	–	–	7,575,006
Financial assets at FVPL	238,708,909	–	–	238,708,909
AFS financial assets:				
Government debt securities	166,591,745	–	–	166,591,745
Private debt securities	371,976,495	–	–	371,976,495
Listed common shares	161,866,406	–	–	161,866,406
Private common shares	1,020,000	–	–	1,020,000
	₱1,589,888,219	₱188,100,850	₱319,412,217	₱2,097,401,286

**excludes cash on hand*

The credit quality of the financial assets was determined as follows:

a. *Cash and cash equivalents and accrued income*
These are classified as investment grade. These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b. *Insurance receivables and loans and receivables*
The Company uses a credit rating concept based on the borrower's overall credit worthiness. Investment grade is given to borrowers and counterparties having good standing in terms of credit and paying habits and their outstanding account balance does not exceed 30% of their total production. Non-investment grade is given to borrowers and counterparties having low standing in terms of credit and paying habits and their outstanding balance exceeds 50% of their total production.

c. *Debt securities*
These are classified as investment grade. The government debt securities are issued by the local government authority and are considered as risk-free debt securities. The private debt securities are issued by the stable companies and are considered to be high credit worthiness.

d. *Equity securities*
Equity securities not subjected to other than temporary decline are classified as investment grade.

The table below shows the aging analysis of financial assets that are past due but not impaired:

	2018						
	Past due but not impaired						
	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total	Past due and impaired	Total
Insurance receivables:							
Premiums receivable	**₱–**	**₱–**	**₱–**	**₱210,924,393**	**₱210,924,393**	**₱4,599,194**	**₱215,523,587**
Reinsurance recoverable on paid losses	**–**	**–**	**–**	**112,082,421**	**112,082,421**	**3,293,917**	**115,376,338**
Due from ceding companies	**–**	**–**	**–**	**30,361,485**	**30,361,485**	**852,181**	**31,213,666**
Funds held by ceding companies	**–**	**–**	**–**	**8,705,066**	**8,705,066**	**–**	**8,705,066**
Commissions receivable	**–**	**–**	**–**	**23,456,113**	**23,456,113**	**–**	**23,456,113**
	₱–	**₱–**	**₱–**	**₱385,529,478**	**₱385,529,478**	**₱8,745,292**	**₱394,274,770**

	2017						
	Past due but not impaired						
	Less than 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total	Past due and impaired	Total
Insurance receivables:							
Premiums receivable	₱–	₱–	₱–	₱151,881,437	₱151,881,437	₱4,599,194	₱156,480,631
Funds held by ceding companies	–	–	–	110,378,356	110,378,356	–	110,378,356
Reinsurance recoverable on paid losses	–	–	–	9,190,980	9,190,980	3,293,917	12,484,897
Due from ceding companies	–	–	–	22,768,205	22,768,205	852,181	23,620,386
Commissions receivable				16,447,947	16,447,947	–	16,447,947
	₱–	₱–	₱–	₱310,666,925	₱310,666,925	₱8,745,292	₱319,412,217

The Company has a significant concentration of credit risk with the Lucio Tan Group as of December 31, 2018 and 2017 (Note 24).

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; counterparty failing on repayment of a contractual obligation; insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the potential daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company manages liquidity risk by specifying minimum proportion of funds to meet emergency calls; specifying the sources of funding and the events that would trigger the plan; determining concentration of funding sources; reporting of liquidity risk exposures; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment. The following tables analyze financial assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates.

	2018				
	Up to a year	2-5 years	Over 5 years	No term	Total
Financial assets					
Loans and receivables:					
Cash and cash equivalents*	**₱538,509,084**	**₱–**	**₱–**	**₱–**	**₱538,509,084**
Insurance receivables:					
Premiums receivable	**333,958,485**	**–**	**–**	**–**	**333,958,485**
Reinsurance recoverable on paid losses	**135,869,692**	**–**	**–**	**–**	**135,869,692**
Due from ceding companies	**61,425,054**	**–**	**–**	**–**	**61,425,054**
Funds held by ceding companies	**8,705,066**	**–**	**–**	**–**	**8,705,066**

(Forward)

	2018				
	Up to a year	**2-5 years**	**Over 5 years**	**No term**	**Total**
Commissions receivable	**₱37,358,427**	**₱–**	**₱–**	**₱–**	**₱37,358,427**
Accounts receivable	**15,515,131**	–	–	–	**15,515,131**
Advances to employees	**44,461**	–	–	–	**44,461**
Money market placements	**15,308,750**	**161,259,375**	–	–	**176,568,125**
Accrued income	**9,323,256**	–	–	–	**9,323,256**
Financial assets at FVPL	**220,683,979**	–	–	–	**220,683,979**
AFS financial assets:					
Government debt securities	**7,351,250**	**207,663,125**	–	–	**215,014,375**
Private debt securities	**46,972,035**	**326,372,745**	**95,269,306**	–	**468,614,086**
Listed common shares	–	–	–	**167,494,903**	**167,494,903**
Private common shares	–	–	–	**1,020,000**	**1,020,000**
	₱1,431,024,670	**₱695,295,245**	**₱95,269,306**	**₱168,514,903**	**₱2,390,104,124**
Financial liabilities					
Insurance contract liabilities	**₱594,670,823**	**₱–**	**₱–**	**₱**	**₱594,670,823**
Accounts payable and accrued expenses**	**246,332,987**	–	–	–	**246,332,987**
Insurance payables	**301,256,571**	–	–	–	**301,256,571**
	₱1,142,260,381	**₱–**	**₱–**	**₱–**	**₱1,142,260,381**

**excludes cash on hand*
***excludes taxes payable*

	2017				
	Up to a year	2-5 years	Over 5 years	No term	Total
Financial assets					
Loans and receivables:					
Cash and cash equivalents*	₱484,005,723	₱–	₱–	₱–	₱484,005,723
Insurance receivables:					
Premiums receivable	275,026,086	–	–	–	275,026,086
Reinsurance recoverable on paid losses	114,769,567	–	–	–	114,769,567
Due from ceding companies	28,558,279	–	–	–	28,558,279
Funds held by ceding companies	12,539,246	–	–	–	12,539,246
Commissions receivable	27,061,853	–	–	–	27,061,853
Accounts receivable	40,168,353	–	–	–	40,168,353
Advances to employees	644,391	–	–	–	644,391
Money market placements	6,432,500	126,083,750	50,484,375	–	183,000,625
Accrued income	7,575,006	–	–	–	7,575,006
Financial assets at FVPL	238,708,909		–	–	238,708,909
AFS financial assets:					
Government debt securities	6,191,000	85,876,250	102,437,500	–	194,504,750
Private debt securities	40,607,345	309,881,410	95,112,254	–	445,601,009
Listed common shares	–	–	–	161,866,406	161,866,406
Private common shares	–	–	–	1,020,000	1,020,000
	₱1,282,288,258	₱521,841,410	₱248,034,129	₱162,886,406	₱2,215,050,203
Financial liabilities					
Insurance contract liabilities	₱455,513,503	₱–	₱–	₱–	₱455,513,503
Accounts payable and accrued expenses**	225,059,381	–	–	–	225,059,381
Insurance payables	228,552,543	–	–	–	228,552,543
	₱909,125,427	₱–	₱–	₱–	₱909,125,427

**excludes cash on hand*
***excludes taxes payable*

Market risk

Market risk is the risk of change in fair value of financial instruments from fluctuations in foreign exchange rates (currency rate or 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.

The Company structures levels of market risk it accepts through a market risk policy that determines what constitutes market risk for the Company; determines the basis used to fair value financial assets and liabilities; defines asset allocation and portfolio limit structure; provides diversification benchmarks by type of instrument; sets out the net exposure limits by each counterparty or group of counterparties, reports market risk exposures and breaches; and monitors compliance with market risk policy; and reviews market risk policy for pertinence and changing environment.

a. *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 United Stated Dollar (US$).

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 shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents.

	2018		2017	
	US$	**PHP**	US$	PHP
Cash and cash equivalents	**US$487,928**	**₱25,655,254**	US$984,821	₱49,172,113

The exchange rates used are ₱52.58 to US$1.00 in 2018 and ₱49.93 to US$1 in 2017.

The Company has no foreign currency-denominated financial liabilities as of December 31, 2018 and 2017.

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) and equity (that reflects adjustments to profit before tax).

	2018		2017	
Currency	**Change in rate**	**Impact on income before tax**	Change in rate	Impact on income before tax
US$	**+7.40%**	**₱1,897,868**	+0.08%	₱40,023
US$	**-7.40%**	**(1,897,868)**	-0.08%	(40,023)

The Company used the average of changes in year-end closing rate for the past three (3) years in determining the reasonably possible change in foreign exchange rates.

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

The following tables show the information relating to the Company's financial instruments that are exposed to interest rate risk presented by maturity profile.

			2018		
	Interest rates	**Within 1 year**	**2-5 years**	**Over 5 years**	**Total**
Financial assets					
Cash and cash equivalents*	**1.00% to 7.50%**	**₱536,948,731**	**₱–**	**₱–**	**₱536,948,731**
AFS financial assets:					
Government debt securities	**3.25% to 4.88%**	**–**	**178,137,358**	**–**	**178,137,358**
Private debt securities	**3.50% to 6.88%**	**27,062,355**	**273,290,691**	**80,710,201**	**381,063,247**
Money market placements	**3.25% to 5.50%**	**9,000,000**	**150,000,000**	**–**	**159,000,000**
		₱573,011,086	**₱601,428,049**	**₱80,710,201**	**₱1,255,149,336**
Financial liabilities					
Funds held for reinsurers	**5.00%**	**₱37,792,229**	**₱–**	**₱–**	**₱37,792,229**

**excludes cash on hand*

			2017		
	Interest rates	Within 1 year	2-5 years	Over 5 years	Total
Financial assets					
Cash and cash equivalents*	0.30% to 5.50%	₱483,149,658	₱–	₱–	₱483,149,658
AFS financial assets:					
Government debt securities	3.25% to 4.25%	–	69,529,395	97,062,349	166,591,744
Private debt securities	4.47% to 5.92%	22,471,277	263,085,394	86,419,824	371,976,495
Loans and receivables	3.25% to 5.50%	–	159,000,000	–	159,000,000
		₱505,620,935	₱491,614,789	₱183,482,173	₱1,180,717,897
Financial liabilities					
Funds held for reinsurers	5.00%	₱19,330,434	₱–	₱–	₱19,330,434

**excludes cash on hand*

c. *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 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 investments, diversification plan, and limits on investment in each sector and market.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on other comprehensive income (due to changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the equity impact of reasonably possible changes in the Philippine Stock Exchange index (PSEi):

	2018		2017	
Market indices	**Change in variables**	**Impact on equity**	Change in variables	Impact on eequity
PSEi	**+17.70%**	**₱15,443,526**	+17.11%	₱16,526,455
PSEi	**-17.70%**	**(15,443,526)**	-17.11%	(16,526,455)

The impact on other comprehensive income is arrived at using the reasonably possible change in PSEi and the specific adjusted beta of each stock the Company holds. Adjusted beta is the forecasted measure of the volatility of the security for a portfolio in comparison to the market as a whole.

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

The following table sets out the concentration of the claims liabilities by type of contract as of December 31.

	2018		
	Insurance contract liabilities	**Reinsurers' share of liabilities**	**Net**
Fire	**₱109,768,194**	**₱67,706,572**	**₱42,061,622**
Motor	**37,194,072**	**4,483,659**	**32,710,413**
Casualty	**13,639,771**	**10,527,001**	**3,112,770**
Marine	**3,228,865**	**2,502**	**3,226,363**
Engineering	**2,182,046**	**571,716**	**1,610,330**
Aviation	**129,017,084**	**127,225,447**	**1,791,637**
Bonds	**1,129,812**	**351,643**	**778,169**
	₱296,159,844	**₱210,868,540**	**₱85,291,304**

	2017		
	Insurance contract liabilities	Reinsurers' share of liabilities	Net
Fire	₱103,523,454	₱79,753,987	₱23,769,467
Motor	35,608,723	3,980,758	31,627,965
Casualty	11,057,415	7,381,007	3,676,408
Marine	2,698,791	2,245	2,696,546
Engineering	130,405	14,910	115,495
Aviation	68,444,617	67,749,201	695,416
	₱221,463,405	₱158,882,108	₱62,581,297

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. These risks vary significantly in relation to the location of the risk insured by the Company and types of risks insured.

The variability of risks is improved by careful selection and implementation of underwriting strategies, strict claims review policies to assess all new and ongoing claims, as well as the investigation of possible fraudulent claims. The Company also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company also limits its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's premiums retained.

The majority of reinsurance business ceded is placed on a quota share basis with retention limits varying by product line. 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 statements of financial position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to the reinsurance ceded, to the extent that any reinsurers is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

24. **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.

Outstanding balances as of year-end and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2018 and 2017, the Company has not recorded any impairment on receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Transactions with related parties consist mainly of the following activities:

	2018		2017		
Category	**Amount**	**Outstanding balance**	Amount	Outstanding balance	Terms and conditions
Stockholder					
Philippine National Bank (PNB)					
Premiums (b)	**₱11,776,729**	**₱1,305,8583**	₱6,484,454	₱9,004	(i)
Commission (b)	**179,839**		2,711,512		(ii)
Other related parties					
Premiums (b)					(i)
Himmel Industries, Inc. (Himmel)	**4,283,558**	**1,183,861**	30,641,501	14,388,791	
Tanduay Distillers Inc.	**7,758,990**	**5,099,498**	8,691,222	8,595,348	
Fortune Tobacco Corp.	**5,351,305**	**5,105,707**	7,824,339	7,763,431	
PNB Savings Bank	**1,874,277**	**10,585**	5,751,646	5,249,418	
Absolute Chemicals Inc.	**48,959**	**24,971**	5,158,892	4,123,981	
Century Park Hotel	**4,061,386**	**2,496,729**	5,090,798	4,225,741	
Asia Brewery Incorporated	**3,560,666**	**22,577,465**	1,832,323	19,669,391	
Eton Properties Phils. Inc	**21,897,590**	**26,688,851**	1,753,262	460,360	
University of the East	**7,207,306**	**128,659**	1,254,543	343,207	
Foremost Farms Inc.	**1,290,732**	**411,634**	1,123,941	146,407	
Allied Leasing & Finance Corp.	**309,932**	**1,086,833**	59,905	262,041	
PNB General Insurers Company Inc.	**–**	**11,852,885**	–	3,529,062	
Commission (b)					(ii)
Himmel Industries, Inc. (Himmel)	**638,285**		2,711,512		
Eton Properties Phils. Inc	**1,739,863**		1,783,852		
PNB Savings Bank	**–**		1,310,076		
Tanduay Distillers Inc.	**283,233**		1,233,892		
PNB General Insurers Company Inc.	**–**		1,066,702		
Asia Brewery Incorporated	**495,489**		1,003,666		
University of the East	**525,321**		717,150		

(Forward)

Category	2018 Amount	2018 Outstanding balance	2017 Amount	2017 Outstanding balance	Terms and conditions
Absolute Chemicals Inc.	**₱6,871**		₱612,520		
Century Park Hotel	**629,546**		611,157		
Fortune Tobacco Corp.	**42,311**		240,028		
Foremost Farms Inc.	**241,093**		215,051		
Allied Leasing & Finance Corp.	**40,287**		23,366		
		₱89,726,261		₱68,766,182	

(i) Interest-bearing, unsecured, no impairment
(ii) Non-interest bearing, due and demandable, unsecured

(a) The Company maintains savings accounts, current accounts and cash equivalents with PNB, details follow:

	2018	2017
Current account	**₱161,009,765**	₱160,600,799
Savings account	**345,904**	5,712,340
Time deposits	**285,704,984**	306,455,039
	₱447,060,653	₱472,768,178

(b) In the ordinary course of business, the Company accepts insurance business from related parties, normally through Himmel, the Company's general agent and a related party under common control. These transactions are based on terms similar to those offered to third parties.

(c) The Company's key management personnel include its executive, managers, supervisors and officer-in-charge. The summary of compensation of key management personnel is as follows:

	2018	2017
Salaries and other short-term employee benefits	**₱32,742,828**	₱28,605,857
Post-employment benefits and others	**9,555,054**	4,529,398
	₱42,297,882	₱33,135,255

25. Lease Commitment

The Company's branches entered into non-cancellable lease agreements with third parties for their office spaces. These leases are renewed annually upon agreement of both parties.

As of December 31, 2018 and 2017, future minimum rentals payable under non-cancellable operating leases are as follow:

	2018	2017
Within one year	**₱555,710**	₱549,960
After one year but not more than five years	–	765,682
	₱555,710	₱1,315,642

Rent expense charged against operations amounted to ₱0.42 million and ₱0.43 million in 2018 and 2017, respectively (Note 20).

26. Capital Management and Regulatory Requirements

Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., minimum statutory net-worth and risk-based capital requirements).

Capital Management Framework

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders.

The Company reviews the capital requirements by monitoring the minimum statutory net worth and the risk-based capital (RBC) which is regularly communicated to the major shareholders. With this procedure, shareholders are forewarned in anticipation of the IC requirements of additional capital infusion.

Shareholders are well updated with these externally imposed capital requirements since these are being discussed during the annual BOD meeting.

Minimum statutory net worth

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

On January 13, 2015 the IC issued CL No. 2015-02-A, *Minimum Capitalization Requirements Under Sections 194, 197, 200 and 289 of Republic Act 10607 (The Amendment Insurance Code)*, which provides for the clarification of minimum capital requirements under Section 194, 197, 200 and 289 of the New Insurance Code. Under the said circular, non-life insurance companies duly licensed by the IC must have a net worth of at least ₱250,000,000 by December 31, 2013. The minimum net worth of the said companies shall increase to the following amount:

Compliance date	Minimum net worth
December 31, 2016	₱550,000,000
December 31, 2019	900,000,000
December 31, 2022	1,300,000,000

The said circular supersedes Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008

As of December 31, 2018 and 2017, the Company's estimated statutory net worth amounted to ₱1,170,271,517 and ₱1,241,872,817, respectively.

RBC requirements

For purposes of the December 31, 2018 and 2017 financial reporting, the Company determined its compliance with the RBC requirements based on the provisions of CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, and IMC No. 7-2006, *Compliance to IC Requirements*, respectively. These circulars provide RBC frameworks for non-life insurance companies in order to establish the required amounts of capital to be maintained in relation to investment and insurance risks. A non-life insurance company is required to maintain a minimum RBC ratio ration shall subject the fail trend test on a yearly basis. Failure to meet the minimum RBC ratio shall subject the insurance company to corresponding regulatory intervention which has been defined at various levels.

Pursuant to CL no. 2017-15, effective January 1, 2017, non-life insurance companies are required to maintain the minimum RBC2 requirement as prescribed under CL No. 2016-68. Under the RBC2 framework, the RBC2 ratio shall be calculated as total available capital divided by the RBC2 requirement. The final RBC2 ratio can be determined only after the accounts of the Company have been examined by the IC.

The following table shows the estimated RBC2 ratio as of December 31, 2018 as determined by the Company based on the RBC2 framework:

Total available capital	₱1,489,449,106
RBC2 requirement	240,823,292
RBC2 ratio	618.48%

The total available capital shall be 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. This capital is considered to be the highest quality capital available to the insurer. Tier 2 capital does not have the same high-quality characteristics of Tier 1, but can provide an additional buffer to the insurer. Tier 2 capital shall not exceed 50% of Tier 1 capital. The RBC2 requirement shall be the capital that is required to be held in order to cover the risks an insurance company is exposed to and shall be computed using the formula as prescribed under CL No. 2016-68.

Net worth shall include 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 IC. The RBC requirement shall be computed using the formula prescribed under IMC No. 7-2016

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

If the Company failed to meet the minimum required statutory net worth and RBC requirements, the IC is authorized to suspend or revoke all certificates of authority granted to the Company, its officers and agents, and no new business shall be borne by and for the Company until its authority is restored by the IC.

Financial reporting framework
CL No. 2016-65 prescribes the new financial reporting framework (FRF) that is used for the statutory quarterly and annual reporting effective January 1, 2017. This includes rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies.

The FRF includes the economic valuation of assets and liabilities based on internationally accepted accounting, actuarial and insurance core principles which requires quarterly and annual reporting of net worth to the IC.

27. Maturity Analysis of Assets and Liabilities

The table below show the Company's asset and liabilities analyzed according to when they are expected to be recovered, settled or reversed.

	2018		
	Less than 12 months	**Over 12 months**	**Total**
Assets			
Cash and cash equivalents	**₱536,993,631**	**₱–**	**₱536,993,631**
Insurance receivables – net	**577,316,724**	**–**	**577,316,724**
Financial assets			
Financial assets at FVPL	**220,683,979**	**–**	**220,683,979**
AFS financial assets	**27,062,355**	**700,653,154**	**727,715,509**
Loans and receivables	**24,559,592**	**150,000,000**	**174,559,592**
Accrued income	**9,323,256**	**–**	**9,323,256**
Reinsurance assets	**368,091,356**	**–**	**368,091,356**
Deferred acquisition costs	**26,537,688**	**–**	**26,537,688**
Net pension asset	**–**	**963,671**	**963,671**
Property and equipment – net	**–**	**24,470,405**	**24,470,405**
Deferred tax assets – net	**–**	**14,448,099**	**14,448,099**
Other assets	**–**	**64,649,494**	**64,649,494**
	₱1,790,568,581	**₱955,184,823**	**₱2,745,753,404**
Liabilities			
Insurance contract liabilities	**₱594,670,823**	**₱–**	**₱594,670,823**
Accounts payable and accrued expenses	**283,944,478**	**–**	**283,944,478**
Insurance payables	**301,256,571**	**–**	**301,256,571**
Dividends payable	**19,237,343**	**–**	**19,237,343**
Deferred reinsurance commissions	**14,706,719**	**–**	**14,706,719**
	₱1,213,815,934	**₱–**	**₱1,213,815,934**

	2017		
	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	₱483,194,558	₱–	₱483,194,558
Insurance receivables – net	457,955,031	–	457,955,031
Financial assets			
Financial assets at FVPL	238,708,909	–	238,708,909
AFS financial assets	22,471,277	678,983,369	701,454,646
Loans and receivables	40,812,744	159,000,000	199,812,744
Accrued income	7,575,006	–	7,575,006
Reinsurance assets	288,307,014	–	288,307,014
Deferred acquisition costs	22,686,781	–	22,686,781
Property and equipment – net	–	21,711,457	21,711,457
Deferred income tax assets – net	–	14,835,466	14,835,466
Other assets	–	58,094,674	58,094,674
	₱1,561,711,320	₱932,624,966	₱2,494,336,286
Liabilities			
Insurance contract liabilities	₱455,513,503	₱–	₱455,513,503
Accounts payable and accrued expenses	243,002,408	–	243,002,408

(Forward)

	2017		
	Less than 12 months	Over 12 months	Total
Insurance payables	₱228,552,543	₱–	₱228,552,543
Net pension liability	–	7,496,826	7,496,826
Dividends payable	64,687,298	–	64,687,298
Deferred reinsurance commissions	11,592,286	–	11,592,286
	₱1,003,348,038	₱7,496,826	₱1,010,844,864

28. **Note to Statements of Cash Flows**

The table below shows the changes in liabilities arising from financing activities:

	2018		
	Balance at beginning of year	**Cash outflows**	**Balance at end of year**
Dividends payable	**₱64,687,298**	**(₱45,449,955)**	**₱19,237,343**

	2017		
	Balance at beginning of year	Cash outflows	Balance at end of year
Dividends payable	₱125,000,000	(₱60,312,702)	₱64,687,298

29. **Supplementary Tax Information under Revenue Regulations 15-2010**

In compliance with the requirements set forth by Revenue Regulations No. 15-2010 issued by the Philippine Bureau of Internal Revenue (BIR) hereunder are the information on taxes and licenses fees paid or accrued during the taxable year 2018.

<u>VAT</u>
The Company is a VAT-registered entity with VAT output tax declarations for premiums, commissions and other miscellaneous collections as follows:

	Amount	Output VAT
VATable sales	₱450,296,919	₱53,824,025

'VAT zero-rated sales" pertains to gross receipts/collections on premiums from contracts issued to PEZA entities of which are entitled to VAT zero-rating under Section 108(B)(7) of the 1997 Tax Code. On the other hand, "VATable sales", pertains to gross receipts/collections from the issuance of policy from other sources.

The Company has no output VAT from sales of goods and leasing income. There are no exempt sales and zero-rated sales during the year.

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

Balance at January 1, 2018	₱426,586
Current year's domestic purchases/payments for:	
Services lodged under other accounts	28,256,727
	28,683,313
Input VAT applied to output VAT	(29,249,295)
Balance at December 31, 2018	(₱565,982)

Other taxes and license fees
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees. Details consist of the following:

Local:	
Local government tax	₱745,605
Clearance and certificate fees	468,721
Business permit	209,495
Community tax	10,500
	1,434,321
National:	
Filing of annual statement	40,400
VAT registration	3,000
	43,400
	₱1,477,721

Documentary Stamp Tax (DST)
The DST paid for the current year amounted to ₱76,510,198 which is based on premiums written during the year amounting to ₱620,432,617.

The Company has taxes relating to non-life insurance policies that has been passed on to the policyholders and are not recognized in the statement of income. Details of these taxes in 2018 follow:

Fire service tax	₱2,631,464
Premium tax	2,291,455
	₱4,922,919

Withholding taxes
The amount of withholding taxes paid and accrued for the year amounted to:

Expanded withholding taxes	₱11,974,991
Withholding taxes on compensation and benefits	7,173,126
Final withholding taxes	85,724
	₱19,233,841

Tax assessments and cases
The Company has no final assessment notice and/or formal letter of demand from the BIR.
In addition, the Company has no on-going pending tax case outside the administration of the BIR.