MAA General Assurance Philippines, Inc.
(A Subsidiary of MAA International Group Ltd.)

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
MAA General Assurance Philippines, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MAA General Assurance Philippines, Inc. (a subsidiary of MAA International Group Ltd.) (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 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.

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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 No. 15-2010 in Note 32 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 MAA General Assurance Philippines, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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PTR No. 7332517, January 3, 2019, Makati City

March 1, 2019

MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd.)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Cash and cash equivalents (Notes 4 and 29)	**₱251,797,889**	₱301,129,957
Short-term investments (Notes 5 and 29)	**57,255,978**	55,381,058
Insurance receivables (Notes 6 and 29)	**605,685,935**	545,583,038
Financial assets at		
Fair value through profit or loss (FVTPL) (Note 7)	**492,891,987**	–
Fair value through other comprehensive income (FVOCI) (Note 8)	**823,649,388**	–
Amortized cost (Note 9)	**883,700,406**	–
Available-for-sale (AFS) financial assets (Note 8)	–	1,965,338,430
Receivables (Note 10)	**1,147,021**	32,988,761
Accrued income (Notes 11 and 29)	**15,345,365**	13,828,216
Reinsurance assets (Notes 12, 18 and 29)	**509,190,535**	430,123,391
Deferred acquisition costs (Note 13)	**221,968,971**	202,795,175
Property and equipment (Note 14)	**19,745,158**	18,784,399
Software cost (Note 15)	**1,124,796**	1,238,440
Retirement benefit asset (Note 27)	**1,290,285**	–
Deferred tax assets (Note 28)	**26,015,464**	8,204,956
Other assets (Note 16)	**30,240,167**	24,993,353
	₱3,941,049,345	₱3,600,389,174

LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 18 and 29)	**₱1,898,600,421**	₱1,858,327,124
Insurance payables (Notes 19 and 29)	**172,772,283**	106,550,170
Accounts payable and other liabilities (Notes 20 and 29)	**603,554,655**	499,080,881
Deferred reinsurance commissions (Note 13)	**10,603,521**	8,631,438
Retirement benefit liability (Note 27)	–	6,874,846
Income tax payable	**32,045,481**	26,998,139
	2,717,576,361	2,506,462,598
Equity		
Capital stock (Note 22)	**682,123,000**	682,123,000
Contributed surplus	**643,832**	643,832
Contingency surplus (Note 22)	**738**	738
Revaluation reserve on financial assets at FVOCI (Note 8)	**(50,237,790)**	–
Revaluation reserve on AFS financial assets (Note 8)	–	(23,685,772)
Retained earnings	**590,943,204**	434,844,778
	1,223,472,984	1,093,926,576
	₱3,941,049,345	₱3,600,389,174

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd.)
STATEMENTS OF INCOME

	Years Ended December 31	
	2018	2017
REVENUES		
Gross earned premiums on insurance contracts (Notes 18 and 23)	**₱1,937,446,112**	₱1,720,307,895
Reinsurers' share of gross earned premiums on insurance contracts (Notes 18 and 23)	**(580,583,771)**	(480,956,810)
Net insurance earned premiums	**1,356,862,341**	1,239,351,085
Investment and other income - net (Note 24)	**44,155,987**	111,196,468
Commission income (Note 13)	**31,916,271**	33,117,453
Total Revenues	**1,432,934,599**	1,383,665,006
BENEFITS, CLAIMS AND OTHER EXPENSES		
Gross insurance contract benefits and claims paid (Notes 18 and 25)	**638,454,386**	433,679,481
Reinsurers' share of gross insurance contract benefits and claims paid (Notes 18 and 25)	**(78,788,425)**	(36,581,085)
Gross change in insurance contract liabilities (Note 25)	**26,433,586**	272,796,353
Reinsurers' share of gross change in insurance contract liabilities (Note 25)	**(60,023,166)**	(102,092,906)
Net insurance benefits and claims	**526,076,381**	567,801,843
Commission expense (Note 13)	**486,789,558**	414,546,050
Operating expenses (Note 26)	**223,938,367**	195,086,769
Other underwriting expense (Note 26)	**18,369,173**	19,856,447
Interest expense	**118,557**	169,793
Total Benefits, Claims and Other Expenses	**1,255,292,036**	1,197,460,902
INCOME BEFORE INCOME TAX	**177,642,563**	186,204,104
PROVISION FOR INCOME TAX (Note 28)	**39,644,522**	40,577,494
NET INCOME	**₱137,998,041**	₱145,626,610

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd.)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
NET INCOME	**₱137,998,041**	₱145,626,610
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (Note 8)*:*		
Changes in net unrealized loss on FVOCI debt investments	**(37,060,005)**	−
Changes in net unrealized gain on AFS financial assets	−	11,044,673
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Changes in net unrealized loss on FVOCI equity investments (Note 8)	**(13,232,895)**	−
Remeasurement gain (loss) on retirement benefit liability, net of tax effect (Note 27)	**4,054,708**	(1,927,381)
	(46,238,192)	9,117,292
TOTAL COMPREHENSIVE INCOME	**₱91,759,849**	₱154,743,902

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd.)

STATEMENTS OF CHANGES IN EQUITY

	Capital stock (Note 22)	Deposit for future stock subscription (Note 22)	Contributed surplus	Contingency surplus (Notes 22 and 29)	Revaluation reserve on financial assets at FVOCI (Note 8)	Revaluation reserve on AFS financial assets (Note 8)	Remeasurement gain (loss) on retirement benefit liability (Note 27)	Retained earnings	Total
As at December 31, 2017	**₱682,123,000**	**₱–**	**₱643,832**	**₱738**	**₱–**	**(₱23,685,772)**	**₱–**	**₱434,844,778**	**₱1,093,926,576**
Effect of adoption of PFRS 9, *Financial Instruments* (Note 2)	–	–	–	–	**55,110**	**23,685,772**	–	**14,045,677**	**37,786,559**
As at January 1, 2018	**682,123,000**	–	**643,832**	**738**	**55,110**	–	–	**448,890,455**	**1,131,713,135**
Net income	–	–	–	–	–	–	–	**137,998,041**	**137,998,041**
Other comprehensive income (loss)	–	–	–	–	**(50,292,900)**	–	**4,054,708**	–	**(46,238,192)**
Total comprehensive income (loss)	–	–	–	–	**(50,292,900)**	–	**4,054,708**	**137,998,041**	**91,759,849**
Remeasurement gain on retirement benefit liability transferred to retained earnings	–	–	–	–	–	–	**(4,054,708)**	**4,054,708**	–
As at December 31, 2018	**₱682,123,000**	**₱–**	**₱643,832**	**₱738**	**(₱50,237,790)**	**₱–**	**₱–**	**₱590,943,204**	**₱1,223,472,984**
As at January 1, 2017	₱300,000,000	₱300,000,000	₱643,832	₱82,123,738	₱–	(₱34,730,445)	₱–	₱291,145,549	₱939,182,674
Issuance of common stock (Note 22)	382,123,000	(300,000,000)	–	(82,123,000)	–	–	–	–	–
Net income	–	–	–	–	–	–	–	145,626,610	145,626,610
Other comprehensive income	–	–	–	–	–	11,044,673	(1,927,381)	–	9,117,292
Total comprehensive income (loss)	–	–	–	–	–	11,044,673	(1,927,381)	145,626,610	154,743,902
Remeasurement loss on retirement benefit liability transferred to retained earnings	–	–	–	–	–	–	1,927,381	(1,927,381)	–
As at December 31, 2017	₱682,123,000	₱–	₱643,832	₱738	₱–	(₱23,685,772)	₱–	₱434,844,778	₱1,093,926,576

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱177,642,563**	₱186,204,104
Adjustments for:		
Interest income (Note 24)	**(66,739,584)**	(51,854,196)
Dividend income (Note 24)	**(28,627,371)**	(22,976,080)
Loss (gain) on sale of:		
Financial assets at FVOCI/AFS financial assets (Note 24)	**2,007,715**	(33,591,143)
Property and equipment (Note 24)	**(160,094)**	(961,359)
Depreciation and amortization (Notes 14, 15 and 26)	**3,800,271**	3,561,269
Net change in retirement benefit liability	**(2,372,691)**	249,534
Interest expense	**118,557**	169,793
Impairment loss (Notes 4, 5, 6, 9 and 24)	**55,096**	1,938,026
Net operating income before working capital changes	**85,724,462**	82,739,948
Decrease (increase) in:		
Short-term investments	**(2,146,074)**	(499,277)
Insurance receivables	**(65,046,395)**	(87,089,779)
Financial assets at FVTPL	**(29,716,968)**	–
Receivables	**31,841,740**	(30,314,848)
Reinsurance assets	**(79,067,144)**	(92,265,179)
Deferred acquisition costs	**(19,173,796)**	(38,339,906)
Other assets	**(5,307,877)**	336,278
Increase (decrease) in:		
Insurance contract liabilities	**40,273,297**	348,626,589
Insurance payables	**66,222,113**	85,651,947
Accounts payable and other liabilities	**104,473,774**	72,900,006
Deferred reinsurance commissions	**1,972,083**	(3,169,171)
Net cash generated from operations	**130,049,215**	338,576,608
Income tax paid	**(50,595,934)**	(25,279,686)
Net cash provided by operating activities	**79,453,281**	313,296,922
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Financial assets at amortized cost	**(171,250,000)**	–
Financial assets at FVOCI/AFS financial assets	**(120,344,503)**	(2,048,181,503)
Property and equipment (Note 14)	**(4,838,700)**	(5,513,961)
Intangible assets (Note 15)	**(157,698)**	(389,764)
Proceeds from sale/maturities of:		
Financial assets at FVOCI/AFS financial assets	**73,565,197**	1,370,435,163
Property and equipment (Note 14)	**509,106**	2,488,899
Interest received	**65,172,343**	64,179,004
Dividend received	**28,677,463**	20,803,395
Net cash used in investing activities	**(128,666,792)**	(596,178,767)

(Forward)

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITY		
Interest paid	**(₱118,557)**	(₱169,793)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(49,332,068)**	(283,051,638)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**301,129,957**	584,181,595
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱251,797,889**	₱301,129,957

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

MAA General Assurance Philippines, Inc. (the Company), a corporation duly organized and existing under Philippine laws, is engaged in the business of nonlife insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events. It includes lines such as fire and allied perils, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with and incident to the aforementioned lines. The Company is a majority owned subsidiary of MAA International Group Ltd. (the Parent Company), a company incorporated in Malaysia. The Company's intermediate and ultimate parent company, which are both incorporated in Malaysia, are MAA Corporation Sdn Bhd and MAA Group Berhad, respectively.

The Company was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 1950. In a special Board of Directors' (BOD) meeting held on August 8, 1999, it was approved that the Articles of Incorporation will be amended to extend the existence of the Company to another fifty years from its original expiry date. The Philippine SEC approved the Amended Articles of Incorporation in 2000.

The registered office address of the Company is 10th Floor, Pearl Bank Centre Building, 146 Valero Street, Salcedo Village, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD on March 1, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profits or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and available-for-sale (AFS) financial assets which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency. All values are rounded off to the nearest peso values, unless otherwise indicated.

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

Presentation of Financial Statements
The statements of the financial position of the Company is presented in order of liquidity. An analysis regarding the recovery of assets or settlement of liabilities within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (noncurrent) is presented in Note 21.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

Amendments
- PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- 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)
- PAS 40, *Investment Property*, *Transfers of Investment Property*
- 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.

  This amendment has no impact to the Company's financial statements as the Company adopted PFRS 9 in full starting January 1, 2018 concurrently with the Parent Company's adoption of the said standard.

Philippine Interpretation
- IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

New Standards
- 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 (2009, 2010 and 2013 versions). Accordingly, the Company adopted PFRS 9 using the modified retrospective approach with date of initial application of January 1, 2018. The comparative information for 2017 for financial instruments in the scope of PFRS 9 was not restated and was reported under PAS 39, thus not comparable with the information presented for 2018. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings and other comprehensive income (OCI) as of January 1, 2018.

  The new standard introduces new requirements for classification and measurement, impairment and hedge accounting. Changes in hedge accounting have no significant impact to the Company financial statements while the impact of changes in classification and measurement and impairment is described below.

a. *Classification and Measurement*

Prior to January 1, 2018, the Company classified its financial assets in the following categories under PAS 39: financial assets at FVTPL, AFS financial assets, held to maturity (HTM) financial assets and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

Starting January 1, 2018, the Company classifies its financial assets in the following categories: financial assets at FVTPL, financial assets at FVOCI and financial assets measured at amortized cost. The classification of financial instruments depends on the contractual terms and the business model for managing the instruments (see Note 3).

The following are the changes in the classification of the Company financial assets as a result of the application of the classification and measurement requirements of PFRS 9:

A. *Cash in bank*, *short-term investments* and *insurance receivables* classified as Loans and Receivables as at December 31, 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified as financial assets at amortized cost beginning January 1, 2018.

The Company's investment securities classified as *AFS financial assets* as at December 31, 2017 are classified as follows beginning January 1, 2018:

B. *Government securities* are classified as financial assets at FVOCI as these are held both to collect contractual cash flows and to sell except for certain government debt securities that are held for reserve requirements of the Insurance Commission (IC) which are classified as financial assets at amortized cost.

C. *Corporate debt securities* that are externally managed are classified as financial assets at FVOCI as management expects to hold and to sell these securities in order to collect contractual cash flows.

D. *Quoted equity securities* that are externally managed are classified as financial assets at FVTPL while others such as preferred shares and quoted equity securities that are internally managed are classified as financial assets at FVOCI.

E. *Unquoted equity securities* carried previously at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Company applied the option to classify as financial assets at FVOCI without recycling.

b. *Impairment*

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to record ECL on all of its debt financial assets except for those classified as FVTPL. The Company applies the simplified approach and records lifetime expected losses on all insurance receivables that do not contain significant financing component except for reinsurance assets which the Company provides credit losses using incurred loss approach as allowed under PFRS 4.

For the Company's debt securities and other receivables that are measured at amortized cost or at FVOCI, the general approach for measuring expected credit losses is applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality. Upon adoption of PFRS 9, the Company recognized additional credit losses amounting to ₱11,628,076 net of deferred tax assets amounting to ₱3,488,423.

To reflect the difference between PFRS 9 and PAS 39, PFRS 7, *Financial Instrument: Disclosures* was also amended. The Company applied the amended disclosure requirements, together with PFRS 9, for the year beginning January 1, 2018. Changes include transition disclosures (discussed above), detailed qualitative and quantitative information about the ECL calculations such as assumptions and inputs (see Notes 3 and 29) and reconciliations from opening to closing provision for ECL (see discussion below).

In summary, upon the adoption of PFRS 9, the Company had the following elected or required reclassifications as at January 1, 2018, including the ECL impact for financial assets at amortized cost and debt instruments at FVOCI.

		PAS 39 measurement					PFRS 9	
Financial Assets	**Ref**	**Category**	**Amount**	***Re-classification***	***Re-measurement ECL***	***Re-measurement Others***	**Category**	**Amount**
Receivables								
Cash and cash equivalents	*A*		₱301,129,057	₱–	(₱1,351,899)	₱–		₱299,777,158
Short-term investments	*A*		55,381,058	–	(261,039)	–		55,120,019
Insurance receivables	*A*		545,583,038	–	(4,943,498)	–		540,639,540
		L&R	**₱902,093,153**	**₱–**	**(₱6,556,436)**	**₱–**	**AC**	**₱895,536,717**
AFS Financial Assets								
Debt			₱1,207,313,320	(₱1,207,313,320)	₱–	₱–		₱–
To: Financial Assets at FVOCI	***B***		–	*(534,379,533)*	–	–		–
To: Financial Assets at AC	***C***		–	*(672,933,787)*	–	–		–
			1,207,313,320	**(1,207,313,320)**	–	–		–
Equity			758,025,110	(758,025,110)	–	–		–
To: Financial Assets at FVTPL	***D***		–	*(463,175,019)*	–	–		–
To: Financial Assets at FVOCI	***D***		–	*(294,850,091)*	–	–		–
			758,025,110	**(758,025,110)**	–	–		–
		AFS	**₱1,965,338,430**	**(₱1,965,338,430)**	**₱–**	**₱–**	**N/A**	**₱–**
Financial assets at FVTPL								
Equity								
From: AFS Financial Assets	***D***	**N/A**	**₱–**	**₱463,175,019**	**₱–**	**₱–**	**FVTPL**	**₱463,175,019**
Financial assets at FVOCI								
Debt								
From: AFS Financial Assets	***B***		*₱–*	*₱534,379,533*	*(₱779,962)*	*₱779,962*		*534,379,533*
Equity								
From: AFS Financial Assets	***D, E***		–	*294,850,091*	–	–		*294,850,091*
		N/A	**₱–**	**₱829,229,624**	**(₱779,962)**	**₱779,962**	**FVOCI**	**₱829,229,624**
Financial assets at Amortized cost								
Debt								
From: AFS Financial Assets	***C***	**N/A**	**₱–**	**₱672,933,787**	**(₱5,071,641)**	**₱45,926,213**	**AC**	**₱713,788,359**

The summary of impact on classification and remeasurement, including ECL, under PFRS 9 as of January 1, 2018 follows:

As at January 1, 2018	**Ref**	**Retained Earnings**	**Revaluation Reserve on AFS Financial Assets/Financial Assets at FVOCI**	**Total**
Reversal of net unrealized losses on AFS financial assets reclassified to Amortized cost	*C*	₱–	₱45,926,213	₱45,926,213
Recognition of additional provision for ECL, net of deferred tax assets	*A, B, C*	(8,919,616)	779,962	(8,139,654)
Reclassification of net unrealized loss for securities reclassified from AFS financial assets to FVTPL	*D*	22,965,293	(22,965,293)	–
		₱14,045,677	₱23,740,882	₱37,786,559

As of December 31, 2018, the fair value of the financial assets at amortized cost which were transferred out of AFS financial assets amounted to ₱495,676,510. Had this been retained to be measured at fair value, unrealized loss amounting to ₱58,583,517 would have been recognized in 2018 OCI.

The following table reconciles the aggregate opening provision for credit losses under PAS 39 to provision for ECL under PFRS 9:

	Provision for credit losses under PAS 39 as at December 31, 2017	Remeasurement	Provision for ECL under PFRS 9 as at January 1, 2018
Loans and receivables under PAS 39/Financial assets at amortized cost under PFRS 9			
Cash in bank	₱–	₱1,351,899	₱1,351,899
Short-term investments	–	261,039	261,039
Insurance receivables under PAS 39/Insurance receivables at amortized cost under PFRS 9	21,785,497	4,943,498	26,728,995
AFS financial asset under PAS 39/Debt instruments at amortized cost under PFRS 9	–	5,071,641	5,071,641
AFS financial asset under PAS 39/Debt instruments at FVOCI under PFRS 9	–	779,962	779,962
	₱21,785,497	₱12,408,039	₱34,193,536

- PFRS 15, *Revenue from Contracts with Customers*

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

  PFRS 15 requires entities to exercise 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 the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

  The adoption of this standard did not have any impact on the Company's financial statements as the Company's revenue consists of premiums and investment income which are covered under PFRS 4 and PFRS 9, respectively.

Product Classification

Insurance Contracts

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.

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.

Fair Value Measurement

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

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

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

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

If the asset or liability measured at fair value has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

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

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

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

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

For assets and liabilities that are recognized in the financial 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. The Company determines the policies and procedures for recurring fair value measurement such as finacial assets at FVTPL and FVOCI.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (see Note 29).

Cash and Cash Equivalents
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.

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

Financial Instruments - Initial Recognition
Date of recognition
The Company recognizes a financial asset or a financial liability 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 and measurement
All financial instruments are initially measured at fair value. Except for financial assets at FVTPL, the initial measurement of financial instruments includes transaction costs.

Financial Instruments - Classification and Subsequent Measurement
Policies applicable beginning January 1, 2018
Starting January 1, 2018, the Company classifies its financial assets in the following categories: financial assets at FVTPL, financial assets at FVOCI and financial assets measured at amortized cost while financial liabilities are classified as financial liabilities at amortized cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent to initial recognition, the Company may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed. For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

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

Financial assets at amortized cost (debt instruments)
The Company measures financial assets at amortized cost if both of the following conditions are met:

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

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

The Company's financial assets at amortized cost includes investments in government and private quoted debt securities, insurance receivables and other receivables.

FVOCI (debt instruments)
The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

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

The Company's debt instruments at fair value through OCI includes investments in government and corporate quoted debt securities.

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

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

The Company elected to classify irrevocably its internally-managed listed equity investments and externally-managed listed preferred equity investments under this category.

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

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of income.

This category includes listed equity investments which the Company had not irrevocably elected to classify at FVOCI. Dividends on listed equity investments are also recognized as 'Dividends' under 'Investment and other income-net' in the statement of income when the right of payment has been established.

Policies applicable prior to January 1, 2018
Prior to January 1, 2018, the Company classified its financial assets in the following categories: financial assets at FVTPL, AFS financial assets, HTM financial assets and loans and receivables. 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 date.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as designated at FVTPL or receivables. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. This category includes debt and equity instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported under 'Revaluation reserve on AFS financial assets' in other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as realized gains or losses in the statement of income. Interest earned on holding AFS debt investments are recognized using effective interest method. Dividends earned on holding AFS equity investments are recognized in the statement of income when the right to receive the payment has been established. The losses arising from the impairment of such investments are recognized as 'Impairment loss' under 'Investment and other income - net' in the statement of income.

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.

Insurance Receivables
Insurance receivables are consist of 'Due from brokers and agents', 'Due from ceding companies', 'Funds held by ceding companies' and 'Reinsurance recoverable on paid losses.' These 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. Any credit losses on insurance receivables are also recognized under 'Provision for credit and impairment losses' in statement of income. Insurance receivables are derecognized following the derecognition criteria of financial assets.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVTPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

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

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

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

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

The Company's debt instruments at FVOCI comprise solely of quoted bonds that are graded in the top investment category (high grade) by Philippine Rating Services Corporation and, therefore, are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company uses the ratings from the Philippine Rating Services Corporation to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Policies applicable prior to January 1, 2018
The Company assesses at each 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.

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as class of agents, paying habits and past due status and term.

AFS Financial Assets
In case of equity instruments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is significant and prolonged is subject to judgment. When there is evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in equity, is removed

from equity and recognized in the statements of income. Impairment losses on equity investments are not reversed through the statements of income. Increase in fair value after impairment is recognized directly in other comprehensive income.

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 where:

- the rights 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 rights 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.

Where the Company has transferred its right to receive cash flows from an asset and has either 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 guarantee over the transferred assets is measured at the lower of the original carrying amount of the assets and the maximum amount of consideration that the Company could be required to pay.

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or 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 a recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting

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

Reinsurance Assets

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

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

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

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

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

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

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

Subsequent to initial recognition, these costs are amortized using the 24^{th} method over the life of the contract. For policies with policy duration less than one year or more than one year, the DAC considers the actual DAC from the date of valuation to the date of termination of policies. Amortization is recognized as ‘Commission expense’ in the statements of income. The unamortized acquisition costs are shown as ‘Deferred acquisition costs’ in the assets section of the statement of financial position.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. The carrying amount is written down to the recoverable amount. The impairment loss is charged to profit or loss. DAC is also considered in the liability adequacy test at each reporting period.

DAC is derecognized when the related contracts are settled or disposed.

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 are charged against profit or loss during the financial period in which they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the properties, or the term of the lease, whichever is shorter, for leasehold improvements, as follows:

	Years
Transportation equipment	5-10
Leasehold improvements	5
Computer equipment	5
Office furniture, fixtures and equipment	5
Building	20

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

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against profit or loss.

Software Cost
Costs associated with the acquisition of computer software are capitalized only if the asset can be reliably measured, will generate future economic benefits, and there is an ability to use or sell the asset.

Computer software is carried at cost less accumulated amortization. Computer software cost is amortized over the expected useful life of the asset, but not to exceed five (5) years. All computer software components are amortized over five (5) years. Amortization commences when the asset is available for use or when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Company.

Creditable Withholding Taxes (CWTs)
Creditable withholding pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under 'Other assets' account.

At each tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company.

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

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

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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

Provision for Unearned Premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as 'Provision for unearned premiums' and presented as part of 'Insurance contract liabilities' in the liability section of the statements of financial position. Unearned premium reserve (UPR) is calculated based on the 24th method for all classes of business, on a gross of reinsurance basis. For policies with policy duration less than one year or more than one year, the UPR considers the actual unearned premiums from the date of valuation to the date of termination of policies. 'Gross change in provision for unearned premiums' account is taken to profit or loss in order that revenue is recognized over the period of risk.

Claims Provision and Incurred But Not Reported (IBNR) Losses
Outstanding claims provision is 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 a 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 these cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money and includes provision for claims reported and claims IBNR. The provision for claims liability is based on the adjusters' report on the individual claims and the provision for claims IBNR is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that include a Margin for Adverse Deviation (MfAD). No provision for equalization or catastrophic reserves is recognized. The liabilities are derecognized when the contract is discharged, cancelled, or has expired.

Retirement Asset/Liability
The net defined benefit asset or liability 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, 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 OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements are closed to Retained earnings at the end of every reporting date.

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

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

Equity

Capital stock represents the value of shares that have been issued at par.

Deposit for future stock subscription (DFS) represents payments made on subscription of shares which cannot be directly credited to ‘Capital stock’ due to pending registration with the SEC of the amendment to the Articles of Incorporation increasing capital stock.

Contributed surplus represents original contributions of the stockholders of the Company in addition to the paid-in capital stock in order to comply with the pre-licensing requirements.

Contingency surplus pertains to capital infusions of shareholders in order to comply with Margin of Solvency (MOS) deficiency as a result of the examination made by the IC.

Retained earnings include all the accumulated earnings of the Company.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Starting January 1, 2018, revenue from contracts with customers, if any, is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for goods or services. The following specific recognition criteria must be met before revenue is recognized:

Gross premiums
Gross premiums on insurance contracts comprise the total premiums for the whole period of cover provided by insurance contracts entered into during the accounting period and are recognized on the date on which the policies incept. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from past experience and are included in premiums written.

Premiums from insurance contracts are recognized as revenue over the period of the contracts using the 24^{th} method. The portion of the premiums written that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Provision for unearned premiums' and presented as part of 'Insurance contract liabilities' in the liabilities section of the statements of financial position.

Reinsurance Premiums
Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognized on the date which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

The related reinsurance premiums ceded that pertain to the unexpired periods at reporting date are accounted for as 'Deferred reinsurance premiums' shown as part of 'Reinsurance assets' presented in the assets section of the statement of financial position.

Reinsurance premiums and claims on the face of the statement of income have been presented as negative items within premiums and net benefits and claims, respectively, because this is consistent with how the business is managed.

Commission income
Commissions earned from insurance contracts 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 reporting date is accounted for as 'Deferred reinsurance commissions' and presented in the liabilities section of the statement of financial position.

Investment income
- Interest income is recognized in the statement of income 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 is recognized when the shareholders' right to receive the payment is established.

Other income
All other income items are recognized in the statement of income when earned.

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

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

Commission expense
Commissions incurred from insurance contracts are recognized as expense 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 reporting date is accounted for as 'Deferred acquisition costs' and presented in the asset section of the statement of financial position.

Other Expenses
Other underwriting expenses, operating expenses and interest expense, except for lease agreements, are recognized as expense as they are incurred.

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

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension is 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).

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

Foreign Exchange Transactions
The functional and presentation currency of the Company is the Philippine Peso (₱). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. Differences arising from translation of monetary assets are taken to profit or loss.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, 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 and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred 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 time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset 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 tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates 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 substantively enacted at the end of the reporting period. Movements in the deferred tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

Current tax and deferred tax relating to items recognized as OCI are also recognized in the statement of comprehensive income.

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

Value-added Tax (VAT)
The input VAT tax pertains to the 12% indirect tax paid by the Company in the course of the Company’s trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the sale of insurance policies and other goods or services by the Company.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under ‘Accounts payable and other liabilities’ account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under ‘Other assets’ account.

Provisions and Contingencies
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in 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 assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

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

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

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

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

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

- PFRS 16, *Leases*

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

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

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

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

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

- 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 asset (liability) 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 asset (liability) 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 asset (liability).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.
  The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

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

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

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

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

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

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

  These amendments will apply on future business combinations of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

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

Deferred effectivity

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

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

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

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRSs 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 reasonable under the circumstances.

<u>Judgments</u>

Classification of Financial Assets

As discussed in Note 2, beginning January 1, 2018, the Company classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Company performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Expected frequency, value and timing of sales

In performing the SPPI test, the Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

Estimates

Valuation of insurance contract liabilities

Estimates have to be made at the reporting date for both the expected ultimate cost of both claims reported and claims IBNR. It can take a significant period of time before the ultimate claim cost can be established with certainty and for some types of policies, IBNR claims form the majority of the claims provision. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to profit or loss.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques such as Chain Ladder method and Bornhuetter-Ferguson method based on paid and reported claims information.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by significant business lines and claim 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 most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

As at December 31, 2018 and 2017, the carrying values of provision for IBNR are disclosed in Note 18.

Impairment of insurance receivables

Applicable beginning January 1, 2018

The Company uses a simplified approach in the calculation of its ECL on its insurance receivables by using a provision matrix that specifies the fixed provision rates. It considers how the current and forward-looking information might affect the customer's historical default rates and consequently, how the information would affect the current expectations and estimates of ECLs.

Historical credit loss rate is computed using the net flow rate of the ageing of receivables based on the number of days it is past due. Whereas, forward looking rate is derived by using forecast information of macroeconomic factors such as GDP and inflation rates through regression analysis.

The assessment of the correlation amongst the historical credit loss rates, forecast economic conditions and ECL is a significant estimate. Thereby, changes in circumstances and forecast on economic conditions will greatly impact the ECL calculation which later on may not be a representation of the customer's actual default in the future.

Applicable prior to January 1, 2018
The Company reviews its insurance receivables at each end of the reporting period to assess the reasonableness of provision for impairment losses recognized in the statement of income. 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 age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis. In addition to specific allowance against individually significant receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

As at December 31, 2018 and 2017, the carrying values of insurance receivables and related allowance for credit losses are disclosed in Note 6.

Estimation of retirement benefit liability
The cost of defined benefit obligation and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates and future salary increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The discount rates used were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payout as at statement of financial position date. Future salary increases are based on historical annual merit, market and promotional increase and expected future inflation rates.

As at December 31, 2018 and 2017, the retirement benefit liability and the key assumptions in determining the present value of the defined benefit obligation of the Company are disclosed in Note 27.

Recognition of deferred tax assets
Deferred tax assets are recognized in respect of the temporary differences to the extent that there are sufficient taxable temporary differences relating to the same taxation authority which are expected to reverse in the same period as the expected reversal of the deductible temporary differences or to the extent that it is probable that future taxable profit will be available against which these can be utilized. Significant management judgement 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 at December 31, 2018 and 2017, the Company's recognized and unrecognized deferred tax assets are disclosed in Note 28.

4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand and in banks	**₱184,047,143**	₱204,099,674
Short-term deposits	**68,926,847**	97,030,283
	252,973,990	301,129,957
Less allowance for credit losses (Note 17)	**1,176,101**	–
	₱251,797,889	₱301,129,957

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are money market placements maturing three months or less from the date of acquisition, but with varying periods depending on the immediate cash requirements of the Company and earn interest at the rates ranging from 0.88% to 5.25% in 2018 and 1.25% to 3.50% in 2017.

5. Short-term Investments

This account consists of:

	2018	2017
Short-term investments	**₱57,527,132**	₱55,381,058
Less allowance for credit losses (Note 17)	**271,154**	–
	₱57,255,978	₱55,381,058

Short-term investments represent time deposits with maturities of more than three months but not more than one year from dates of placement and earned interest at annual rates ranging from 0.75% to 4.25% in 2018 and 0.75% to 1.75% in 2017.

Interest income from short-term investments amounted to ₱700,676 and ₱627,122 in 2018 and 2017, respectively (see Note 24).

6. Insurance Receivables

This account consists of:

	2018	2017
Due from brokers and agents	**₱567,880,109**	₱531,285,607
Due from ceding companies	**6,748,071**	7,415,433
Funds held by ceding companies	**4,288,595**	5,492,472
Reinsurance recoverable on paid losses	**40,017,217**	23,175,023
	618,933,992	567,368,535
Less allowance for credit losses (Note 17)	**13,248,057**	21,785,497
	₱605,685,935	₱545,583,038

The following table shows aging information of insurance receivables:

	2018					
	1 to 30 days	**31 to 90 days**	**91 to 180 days**	**181 to 240 days**	**241 days above**	**Total**
Due from brokers and agents	**₱185,427,442**	**₱195,991,767**	**₱129,714,014**	**₱25,184,150**	**₱31,562,736**	**₱567,880,109**
Due from ceding companies	**349,389**	**847,900**	**3,913,192**	**294,867**	**1,342,723**	**6,748,071**
Funds held by ceding companies	**–**	**–**	**–**	**4,288,595**	**–**	**4,288,595**
Reinsurance recoverable on paid losses	**18,914,722**	**2,027,501**	**840,169**	**9,755,471**	**8,479,354**	**40,017,217**
	₱204,691,553	**₱198,867,168**	**₱134,467,375**	**₱39,523,083**	**₱41,384,813**	**₱618,933,992**

	2017					
	1 to 30 days	31 to 90 days	91 to 180 days	181 to 240 days	241 days above	Total
Due from brokers and agents	₱193,111,155	₱187,583,830	₱113,182,487	₱24,831,328	₱12,576,807	₱531,285,607
Due from ceding companies	138,880	245,855	5,325,859	525,251	1,179,588	7,415,433
Funds held by ceding companies	–	–	5,492,472	–	–	5,492,472
Reinsurance recoverable on paid losses	533,010	1,938,696	3,051,176	608,075	17,044,066	23,175,023
	₱193,783,045	₱189,768,381	₱127,051,994	₱25,964,654	₱30,800,461	₱567,368,535

The following is a reconciliation of the changes in allowance for credit losses for insurance receivables:

	2018			
	Due from brokers and agents	**Due from and funds held by ceding companies**	**Reinsurance recoverable on paid losses**	**Total**
Balances at beginning of year	**₱3,361,165**	**₱141,201**	**₱18,283,131**	**₱21,785,497**
Effect of adoption of PFRS 9, *Financial Instruments* (Note 2)	**4,675,474**	**268,024**	**–**	**4,943,498**
Balances, as restated	**8,036,639**	**409,225**	**18,283,131**	**26,728,995**
Provision (reversal of provision) for credit losses (Note 26)	**(2,453,531)**	**187,214**	**3,367,318**	**1,101,001**
Write-off	**–**	**–**	**(14,581,939)**	**(14,581,939)**
Balance at end of year	**₱5,583,108**	**₱596,439**	**₱7,068,510**	**₱13,248,057**

	2017			
	Due from brokers and agents	Due from and funds held by ceding companies	Reinsurance recoverable on paid losses	Total
Balances at beginning of year	₱8,872,054	₱30,917	₱13,650,752	₱22,553,723
Provision (reversal of provision) for credit losses (Note 26)	(5,510,889)	110,284	4,632,379	(768,226)
Balance at end of year	₱3,361,165	₱141,201	₱18,283,131	₱21,785,497
Individually impaired	₱610,280	₱–	₱18,102,757	₱18,713,037
Collectively impaired	2,750,885	141,201	180,374	3,072,460
	₱3,361,165	₱141,201	₱18,283,131	₱21,785,497

7. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss pertains to the Company's externally managed listed shares amounting to ₱492,891,987 and nil as of December 31, 2018 and 2017, respectively.

8. **Financial assets at fair value through other comprehensive income / Available-for-sale financial assets**

As of December 31, 2018, financial assets at FVOCI consist of:

Investments in debt instruments	
Government debt securities	**₱491,958,367**
Corporate debt securities	**47,433,189**
	539,391,556
Investments in equity instruments	
Listed shares	
San Miguel Corporation Preferred Series 2C	**53,200,000**
Petron Corporation Perpetual Preferred Series 2A	**52,028,200**
Ayala Corporation Preferred B Series 2	**49,900,000**
San Miguel Purefoods Perpetual Preferred Series 2	**49,850,000**
San Miguel Corporation Preferred Series 2H	**36,303,850**
San Miguel Corporation Preferred Series 2H	**16,017,500**
San Miguel Corporation Preferred Series 2E	**9,490,000**
Ayala Corporation Preferred B Series 1	**8,900,000**
Sta. Elena Golf Club Shares	**5,700,000**
San Miguel Corporation Preferred Series 2I	**1,303,890**
San Miguel Corporation Preferred Series 2F	**1,242,750**
National Reinsurance Corporation of the Philippines	**270,088**
SM Prime Holdings. Inc.	**7,554**
Others	**44,000**
	284,257,832
	₱823,649,388

As of December 31, 2017, AFS financial assets consist of:

Investments in debt instruments	
Government debt securities	₱603,958,546
Corporate debt securities	603,354,774
	1,207,313,320
Investments in equity instruments	
Listed shares	757,981,110
Others	44,000
	758,025,110
	₱1,965,338,430

As of December 31, 2018 and 2017, the unrealized losses on financial assets recognized in ‘Revaluation reserve on financial assets at FVOCI’ and ‘Revaluation reserve on AFS financial assets’ under equity amounted to ₱50,237,790 and ₱23,685,772, respectively.

Government debt securities include fixed rate treasury notes and retail treasury bonds that bear interest rates per annum ranging from 3.25% to 8.00% in 2018 and have maturities ranging from 2019 to 2040.

Corporate debt securities consist of fixed term debt instruments with annual interest rates ranging from 3.92% to 8.00% and from 3.92% to 7.15% in 2018 and 2017, respectively, and have maturities ranging from 2020 to 2027.

The rollforward of revaluation reserve on financial assets at FVOCI in 2018 follows:

As at January 1, 2018	**(₱23,685,772)**
Effect of adoption of PFRS 9, *Financial Instruments**	**23,740,882**
As at January 1, 2018, as restated	**55,110**
Changes in fair value during the year	**(52,359,542)**
Impairment loss on FVOCI debt financial assets recognized in profit or loss (Note 24)	**58,927**
Realized loss on FVOCI debt financial assets (Note 24)	**2,007,715**
As at December 31, 2018	**(₱50,237,790)**

**includes ECL recognized as at January 1, 2018 amounting to ₱779,962*

The rollforward of revaluation reserve on AFS financial assets in 2017 follows:

As at January 1, 2017	(₱34,730,445)
Changes in fair value during the year	42,697,790
Impairment loss of AFS debt investments transferred in profit or loss (Note 24)	1,938,026
Realized gain for AFS debt instruments (Note 24)	(33,591,143)
As at December 31, 2017	(₱23,685,772)

9. Financial assets at amortized cost

As of December 31, 2018, this account consists of:

Government debt securities	**₱140,000,000**
Corporate debt securities	**750,110,000**
	890,110,000
Less: Allowance for credit losses (Note 17)	
Government debt securities	**153,173**
Corporate debt securities	**6,256,421**
	6,409,594
	₱883,700,406

Government debt securities include fixed rate treasury notes and retail treasury bonds that bear interest rates per annum ranging from 3.50% to 3.63% in 2018 and have maturities ranging from 2019 to 2040.

Corporate debt securities consist of fixed term debt instruments with annual interest rates ranging from 3.92% to 8.00% in 2018 and have maturities ranging from 2020 to 2027.

10. Receivables

This account consists of the following:

	2018	2017
Due from securities broker (Note 29)	**₱–**	₱30,097,750
Miscellaneous receivables (Note 29)	**1,147,021**	2,891,011
	₱1,147,021	₱32,988,761

Due from securities broker pertains to receivable arising from unsettled trade for the sale of equity securities.

Miscellaneous receivables pertain to salary loans granted to employees which are non-interest bearing and payable to the Company within one year through payroll deduction.

As of December 31, 2018 and 2017, the Company's outstanding receivables are all due within one year.

11. Accrued Income

This account consists of:

	2018	2017
Accrued interest receivable	**₱11,881,555**	₱10,314,314
Dividend receivable	**3,463,810**	3,513,902
	₱15,345,365	₱13,828,216

Interest receivable arises from the Company's short-term deposits and government and private debt securities. Dividend receivable arises from the Company's investment in preferred shares.

12. Reinsurance Assets

This account consists of the following:

	2018	2017
Reinsurance recoverable on unpaid losses (Note 18)	**₱417,805,381**	₱357,782,215
Deferred reinsurance premiums (Note 18)	**91,385,154**	72,341,176
	₱509,190,535	₱430,123,391

13. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs
The movements in this account follow:

	2018	2017
Balance at beginning of year	**₱202,795,175**	₱164,455,269
Costs deferred during the year	**505,963,354**	452,885,956
Amortization during the year	**(486,789,558)**	(414,546,050)
Balance at end of year	**₱221,968,971**	₱202,795,175

Deferred Reinsurance Commissions
The movements in this account follow:

	2018	2017
Balance at beginning of year	**₱8,631,438**	₱11,800,609
Income deferred during the year	**33,888,354**	29,948,282
Amortization during the year	**(31,916,271)**	(33,117,453)
Balance at end of year	**₱10,603,521**	₱8,631,438

14. Property and Equipment

The composition of and movement in the Company's property and equipment follow:

	2018					
	Transportation Equipment	**Leasehold Improvements**	**Computer Equipment**	**Office Furniture, Fixtures and Equipment**	**Building**	**Total**
Cost						
At January 1, 2018	**₱12,689,464**	**₱7,943,741**	**₱6,469,364**	**₱8,331,656**	**₱9,750,000**	**₱45,184,225**
Additions	**1,488,393**	**1,216,985**	**1,580,748**	**552,574**	**–**	**4,838,700**
Disposals	**(300,000)**	**(54,018)**	**(966,458)**	**(313,847)**	**–**	**(1,634,323)**
At December 31, 2018	**13,877,857**	**9,106,708**	**7,083,654**	**8,570,383**	**9,750,000**	**48,388,602**
Accumulated depreciation and amortization						
At January 1, 2018	**6,106,696**	**7,746,233**	**2,870,981**	**6,493,624**	**3,182,292**	**26,399,826**
Depreciation (Note 26)	**884,380**	**143,164**	**1,328,393**	**685,492**	**487,500**	**3,528,929**
Disposals	**(299,999)**	**–**	**(714,297)**	**(271,015)**	**–**	**(1,285,311)**
At December 31, 2018	**6,691,077**	**7,889,397**	**3,485,077**	**6,908,101**	**3,669,792**	**28,643,444**
Net book value as of December 31, 2018	**₱7,186,780**	**₱1,217,311**	**₱3,598,577**	**₱1,662,282**	**₱6,080,208**	**₱19,745,158**

	2017					
	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2017	₱15,661,484	₱7,866,091	₱15,842,691	₱7,855,085	₱9,750,000	₱56,975,351
Additions	2,877,678	113,922	1,539,200	983,161	–	5,513,961
Disposals	(5,849,698)	(36,272)	(10,912,527)	(506,590)	–	(17,305,087)
At December 31, 2017	12,689,464	7,943,741	6,469,364	8,331,656	9,750,000	45,184,225
Accumulated depreciation and amortization						
At January 1,2017	10,024,296	7,545,445	12,190,039	6,161,532	2,694,792	38,616,104
Depreciation (Note 26)	744,633	200,788	1,372,834	755,514	487,500	3,561,269
Disposals	(4,662,233)	–	(10,691,892)	(423,422)	–	(15,777,547)
At December 31, 2017	6,106,696	7,746,233	2,870,981	6,493,624	3,182,292	26,399,826
Net book value as of December 31, 2017	₱6,582,768	₱197,508	₱3,598,383	₱1,838,032	₱6,567,708	₱18,784,399

In 2018 and 2017, the gain on sale of property and equipment recognized in ‘Investment and other income - net’ in the statement of income amounted to ₱160,094 and ₱961,359, respectively (see Note 24).

As of December 31, 2018 and 2017, the costs of fully depreciated property and equipment still in use amounted to ₱17,472,432 and ₱16,537,566, respectively.

15. Software Cost

The movements in this account follow:

	2018	2017
Cost		
Balance at beginning of year	**₱1,238,440**	₱848,676
Additions	**157,698**	389,764
Balance at end of year	**1,396,138**	1,238,440
Accumulated amortization		
Balance at beginning of year	**–**	–
Amortization (Note 26)	**271,342**	–
Balance at end of year	**271,342**	–
Net book value	**₱1,124,796**	₱1,238,440

16. Other Assets

This account consists of:

	2018	2017
Deposits	**₱11,421,630**	₱11,380,542
Creditable withholding tax	**11,320,470**	11,347,181
Advance payment to contractors	**5,232,437**	–
Claims fund	**2,137,162**	2,137,162
Security fund	**70,715**	70,715
Prepaid expenses	**57,753**	57,753
	₱30,240,167	₱24,993,353

17. **Allowance for Credit Losses**

The breakdown of allowance for credit losses is shown in the table below:

	2018	2017
Cash in banks and short-term investments (Notes 4 and 5)	**₱1,447,255**	₱–
Due from brokers and agents (Note 6)	**5,583,108**	3,361,165
Due from and funds held by ceding companies (Note 6)	**7,664,949**	18,424,332
Financial assets at amortized cost (Note 9)	**6,409,594**	–
Debt instruments at FVOCI (Note 8)*	**838,889**	–
	₱21,943,795	₱21,785,497

**ECL for debt instrument at FVOCI is recognized against 'Revaluation reserve on financial assets at FVOCI' and not through an allowance account.*

The maximum exposure to credit risk, net of allowance for impairment, amounted to ₱2,337,831,764 as at December 31, 2018.

	2018				
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Simplified Approach**	**Total**
Cash in banks and short-term investments					
Gross carrying amount	₱310,501,122	₱–	₱–	₱–	₱310,501,122
Loss allowance	(1,447,255)	–	–	–	(1,447,255)
	309,053,867	–	–	–	309,053,867
Due from brokers and agents					
Gross carrying amount	–	–	–	567,880,109	567,880,109
Loss allowance	–	–	–	(5,583,108)	(5,583,108)
	–	–	–	562,297,001	562,297,001
Due from and funds held by ceding companies					
Gross carrying amount	–	–	–	11,036,666	11,036,666
Loss allowance	–	–	–	(596,439)	(596,439)
	–	–	–	10,440,227	10,440,227
Reinsurance recoverable on paid losses					
Gross carrying amount	–	–	40,017,217	–	40,017,217
Loss allowance	–	–	(7,068,510)	–	(7,068,510)
	–	–	32,948,707	–	32,948,707
Financial assets at amortized cost					
Gross carrying amount	890,110,000	–	–	–	890,110,000
Loss allowance	(6,409,594)	–	–	–	(6,409,594)
	883,700,406	–	–	–	883,700,406
Financial assets at FVOCI debt instruments					
Gross carrying amount	540,230,445	–	–	–	540,230,445
Loss allowance	(838,889)	–	–	–	(838,889)
	539,391,556	–	–	–	539,391,556
Carrying amount	**₱1,732,145,829**	**₱–**	**₱32,948,707**	**₱572,737,228**	**₱2,337,831,764**

	2018				
	Stage 1	**Stage 2**	**Stage 3**	**Simplified Approach**	**Total**
ECL as at January 1, 2018					
Cash and cash equivalents	₱1,351,899	₱–	₱–	₱–	₱1,351,899
Short-term investments	261,039	–	–	–	261,039
Due from brokers and agents	–	–		8,036,639	8,036,639
Due from and funds held by ceding companies	–	–	–	409,225	409,225
Reinsurance recoverable on paid losses	–	–	18,283,131	–	18,283,131
Financial assets at amortized cost	5,071,641	–	–	–	5,071,641
Financial assets at FVOCI debt instruments	779,962	–	–	–	779,962
	7,464,541	**–**	**18,283,131**	**8,445,864**	**34,193,536**
New assets originated or purchased					
Short-term investments	₱10,116	₱–	₱–	₱–	₱10,116
Due from brokers and agents	–	–	–	4,470,219	4,470,219
Due from and funds held by ceding companies	–	–	–	187,214	187,214
Reinsurance recoverable on paid losses	–	–	3,367,318	–	3,367,318
Financial assets at amortized cost	1,337,953	–	–	–	1,337,953
Financial assets at FVOCI debt instruments	58,927	–	–	–	58,927
	1,406,996	**–**	**3,367,318**	**4,657,433**	**9,431,747**
Assets derecognized or repaid (excluding write offs)					
Cash and cash equivalents	(175,799)	–	–	–	(175,799)
Due from brokers and agents	–	–	–	(6,923,750)	(6,923,750)
	(175,799)	**–**	**–**	**(6,923,750)**	**(7,099,549)**
Assets written off	**–**	**–**	**(14,581,939)**	**–**	**(14,581,939)**
ECL as at December 31, 2018	**₱8,695,738**	**₱–**	**₱7,068,510**	**₱6,179,547**	**₱21,943,795**

Allowance recognized on reinsurance recoverable on paid losses is determined using incurred loss model under PAS 39 (Stage 3).

18. Insurance Contract Liabilities

Changes in valuation methodology

Pursuant to Sections 219 and 220 of the Amended Insurance Code (Republic Act No. 10607) which require every insurance company other than life to maintain (a) a reserve for unearned premiums on its policies in force, and (b) the estimated amount of all its other liabilities, including taxes, expenses and other obligations due or accrued including any special reserves required by the Commissioner, in addition to its liabilities and reserves on contracts of insurance issued by it, IC issued Circular Letter (CL) No. 2016-67, effective January 1, 2017, which provides the new set of valuation standards for non-life insurance policy reserves, which is the aggregate of premium and claim liabilities.

Premium liabilities for each class of business shall be determined as the higher of UPR and unexpired risk reserves (URR). UPR shall be calculated based on the 24th method for all classes of business, on a gross of reinsurance basis. This means that for policies with policy duration less than one year or more than one year, the UPR shall consider the actual unearned premium from the date of valuation to the date of termination of the policy. URR shall be calculated as the best estimate of future claims, commission and expenses for all classes of business, with MfAD. This best estimate relates to expected future claim payments and related expenses to be incurred after the valuation date, arising from future events.

Claim liabilities, on the other hand, refer to claims incurred but not yet paid as of the end of the accounting period, for both the Company's direct and assumed reinsurance business, whether treaty or facultative. It includes claims due and unpaid, claims in the course of settlement, resisted claims and those which are incurred but not reported at a designated level of confidence, as well as direct and indirect expenses related to settling all outstanding claims, whether reported or not unreported, as of valuation date.

On the initial year of effectivity of the new valuation standard, the implementation requirements will be relaxed on premium liabilities allowing insurance companies to set up UPR instead of the higher of the UPR and URR and on claim liabilities allowing insurance companies to set the MfAD to zero (see Note 29).

With respect to transition accounting, IC CL No. 2017-15, *Regulatory Requirements and Actions for the New Regulatory Framework*, provides that the cumulative prior year impact of the changes arising from the adoption of the New Financial Reporting Framework, including the revaluation of the reserves for Claims and Premiums Liabilities computed based on the new valuation standards for non-life insurance policy reserves as provided under CL No. 2016-67, shall be recognized in Retained Earnings.

In 2017, the Company has adopted the requirements of IC CL No. 2016-67.

In 2018, IC issued CL No. 2018-19, *Valuation Standards for Non-Life Insurance Policy Reserves* which supersedes CL No. 2016-67 and amends CL No. 2015-06, *New Reserves Computation for the Compulsory Insurance Coverage for Migrant Workers*. This circular also mandate the use of 24th method calculation of the UPR to policies covering migrant workers/Overseas Filipino Workers (OFWs) using the Table of Premiums for Reserve Computation.

IC also issued CL No. 2018-19 which amends CL No. 2016-69. This circular allowed companies to set the MfAD as follows:

Period covered	Percentage of company-specific MfAD
2017	0%
2018	50%
2019 onwards	100%

In 2018 and 2017, the Company used 100% of the Company-specific MfAD rates.

Insurance contract liabilities are analyzed as follows:

	2018			2017		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 12)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 12)	Net
Provision for claims reported and loss adjustment expenses	**₱928,084,306**	**₱279,844,008**	**₱648,240,298**	₱984,496,450	₱288,742,482	₱695,753,968
Provision for IBNR losses	**208,202,766**	**137,961,373**	**70,241,393**	125,357,036	69,039,733	56,317,303
Total claims reported and IBNR	**1,136,287,072**	**417,805,381**	**718,481,691**	1,109,853,486	357,782,215	752,071,271
Provision for unearned premiums	**762,313,349**	**91,385,154**	**670,928,195**	748,473,638	72,341,176	676,132,462
Total insurance contract liabilities	**₱1,898,600,421**	**₱509,190,535**	**₱1,389,409,886**	₱1,858,327,124	₱430,123,391	₱1,428,203,733

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

	2018			2017		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 12)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 12)	Net
Balance at beginning of year	**₱1,109,853,486**	**₱357,782,215**	**₱752,071,271**	₱837,057,133	₱255,689,309	₱581,367,824
Claims incurred during the year	**582,042,242**	**69,889,951**	**512,152,291**	740,087,778	133,371,241	606,716,537
Claims paid during the year-net of salvage and subrogation (Note 25)	**(638,454,386)**	**(78,788,425)**	**(559,665,961)**	(433,679,481)	(36,581,085)	(397,098,396)
Increase (decrease) in IBNR (Note 25)	**82,845,730**	**68,921,640**	**13,924,090**	(33,611,944)	5,302,750	(38,914,694)
Balance at end of year	**₱1,136,287,072**	**₱417,805,381**	**₱718,481,691**	₱1,109,853,486	₱357,782,215	₱752,071,271

Provision for unearned premiums may be analyzed as follows:

	2018			2017		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 12)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 12)	Net
Balance at beginning of year	**₱748,473,638**	**₱72,341,176**	**₱676,132,462**	₱672,643,402	₱82,168,903	₱590,474,499
New policies written during the year (Note 23)	**1,951,285,823**	**599,627,749**	**1,351,658,074**	1,796,138,131	471,129,083	1,325,009,048
Premiums earned during the year (Note 23)	**(1,937,446,112)**	**(580,583,771)**	**(1,356,862,341)**	(1,720,307,895)	(480,956,810)	(1,239,351,085)
Balance at end of year	**₱762,313,349**	**₱91,385,154**	**₱670,928,195**	₱748,473,638	₱72,341,176	₱676,132,462

19. Insurance Payables

Due to reinsurers and ceding companies amounted to ₱172,772,283 and ₱106,550,170 as of December 31, 2018 and 2017, respectively (see Note 29).

The rollforward analysis of due to reinsurers and ceding companies follows:

	2018	2017
Balance at beginning of the year	**₱106,550,170**	₱20,898,223
Arising during the year	**372,609,081**	208,923,315
Utilized	**(306,386,968)**	(123,271,368)
Balance at end of year	**₱172,772,283**	₱106,550,170

20. Accounts Payable and Other Liabilities

This account consists of:

	2018	2017
VAT payable	**₱247,652,266**	₱187,892,531
Commission payable	**118,527,068**	132,810,620
Accounts payable	**110,422,383**	68,513,830
Withholding taxes payable	**98,572,172**	81,592,644
Taxes payable	**16,680,152**	12,687,551
Documentary stamp taxes (DST) payable	**6,026,641**	8,817,721
Accrued expenses	**4,064,107**	4,737,078
Others	**1,609,866**	2,028,906
	₱603,554,655	₱499,080,881

Others include loans and salary contributions payable.

21. Maturity Analysis of Financial and Nonfinancial Assets and Liabilities

The following tables present the assets and liabilities of the Company by expected maturity and settlement dates as of December 31, 2018 and 2017:

	2018		
	Due Within One Year	**Due Beyond One Year**	**Total**
Financial Assets			
Cash and cash equivalents	**₱251,797,889**	**₱–**	**₱251,797,889**
Short-term investments	**57,255,978**	**–**	**57,255,978**
Insurance receivables	**605,685,935**	**–**	**605,685,935**
Investments in financial assets			
Financial assets at fair value through profit or loss	**492,891,987**	**–**	**492,891,987**
Financial assets at fair value through other comprehensive income	**123,365,532**	**700,283,856**	**823,649,388**
Financial assets at amortized cost	**–**	**883,700,406**	**883,700,406**
Receivables	**1,147,021**	**–**	**1,147,021**
Accrued income	**15,345,365**	**–**	**15,345,365**
Reinsurance assets	**417,805,381**	**–**	**417,805,381**
	1,965,295,088	**1,583,984,262**	**3,549,279,350**
Nonfinancial Assets			
Reinsurance assets	**91,385,154**	**–**	**91,385,154**
Deferred acquisition costs	**221,968,971**	**–**	**221,968,971**
Property and equipment	**–**	**19,745,158**	**19,745,158**
Software cost	**–**	**1,124,796**	**1,124,796**
Deferred tax assets	**–**	**26,015,464**	**26,015,464**
Retirement benefit asset	**–**	**1,290,285**	**1,290,285**
Other assets	**18,383,092**	**11,857,075**	**30,240,167**
	331,737,217	**60,032,778**	**391,769,995**
	₱2,297,032,305	**₱1,644,017,040**	**₱3,941,049,345**
Financial Liabilities			
Insurance contract liabilities	**₱1,087,629,457**	**₱48,657,615**	**₱1,136,287,072**
Insurance payables	**172,772,283**	**–**	**172,772,283**
Accounts payable and other liabilities	**603,554,655**	**–**	**603,554,655**
Income tax payable	**32,045,481**	**–**	**32,045,481**
	1,944,659,491	**–**	**1,944,659,491**
Nonfinancial Liabilities			
Insurance contract liabilities	**762,313,349**	**–**	**762,313,349**
Deferred reinsurance commission	**10,603,521**	**–**	**10,603,521**
	772,916,870	**–**	**772,916,870**
	₱2,717,576,361	**₱–**	**₱2,717,576,361**

	2017		
	Due Within One Year	Due Beyond One Year	Total
Financial Assets			
Cash and cash equivalents	₱301,129,957	₱–	₱301,129,957
Short-term investments	55,381,058	–	55,381,058
Insurance receivables	545,583,038	–	545,583,038
AFS securities	39,889,918	1,925,448,512	1,965,338,430
Receivables	32,988,761	–	32,988,761
Accrued income	13,828,216	–	13,828,216
Reinsurance assets	357,782,215	–	357,782,215
	1,346,583,163	1,925,448,512	3,272,031,675
Nonfinancial Assets			
Reinsurance assets	72,341,176	–	72,341,176
Deferred acquisition costs	202,795,175	–	202,795,175
Property and equipment	–	18,784,399	18,784,399
Software cost	–	1,238,440	1,238,440
Deferred tax assets	–	8,204,956	8,204,956
Other assets	13,431,347	11,562,006	24,993,353
	288,567,698	39,789,801	328,357,499
	₱1,635,150,861	₱1,965,238,313	₱3,600,389,174
Financial Liabilities			
Insurance contract liabilities	₱1,064,080,575	₱45,772,911	₱1,109,853,486
Insurance payables	106,550,170	–	106,550,170
Accounts payable and other liabilities	499,080,881	–	499,080,881
Retirement benefit liability	–	6,874,846	6,874,846
Income tax payable	26,998,139	–	26,998,139
	1,742,482,676	6,874,846	1,749,357,522
Nonfinancial Liabilities		–	
Insurance contract liabilities	748,473,638	–	748,473,638
Deferred reinsurance commission	8,631,438	–	8,631,438
	757,105,076	–	757,105,076
	₱2,499,587,752	₱6,874,846	₱2,506,462,598

22. Capital Stock

The Company's capital stock consists of:

	2018		2017	
	Shares	**Amount**	Shares	Amount
Common stock - ₱1,000 par value				
Authorized:				
At the beginning of the year	**1,300,000**	**₱1,300,000,000**	300,000	₱300,000,000
Increase	**–**	**–**	1,000,000	1,000,000,000
At the end of the year	**1,300,000**	**₱1,300,000,000**	1,300,000	₱1,300,000,000
Issued and outstanding:				
At the beginning of the year	**682,123**	**₱682,123,000**	300,000	₱300,000,000
Issuance during the year	**–**	**–**	382,123	382,123,000
At the end of the year	**682,123**	**₱682,123,000**	682,123	₱682,123,000

On September 23, 2016, the BOD approved the increase in authorized capital stock of the Company from ₱300,000,000 divided into 300,000 shares with a par value of ₱1,000 per share to ₱1,300,000,000 divided into 1,300,000 shares with a par value of ₱1,000 per share. On December 20, 2016, the Company applied for the increase in authorized capital stock with the Philippines SEC. On April 19, 2017, the Philippine SEC approved the Company's application for the increase in authorized capital stock.

Also, on the same date, the Company issued 82,123 shares at ₱1,000 per share and reclassified the contributions from stockholders from 'Contingency surplus' to 'Capital stock'.

23. Net Insurance Earned Premiums

Gross earned premiums on insurance contracts and reinsurers' share of gross earned premiums on insurance contracts consist of the following:

	2018	2017
Gross premiums on insurance contracts:		
Direct insurance	**₱1,895,638,215**	₱1,707,215,578
Assumed reinsurance	**55,647,608**	88,922,553
Total gross premiums on insurance contracts (Note 18)	**1,951,285,823**	1,796,138,131
Gross change in provision for unearned premiums	**(13,839,711)**	(75,830,236)
Total gross earned premiums on insurance contracts (Note 18)	**1,937,446,112**	1,720,307,895
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	**372,609,081**	264,105,378
Assumed reinsurance	**227,018,668**	207,023,705
Total reinsurers' share of gross premiums on insurance contracts (Note 18)	**599,627,749**	471,129,083
Reinsurers' share of gross change in provision for unearned premiums	**(19,043,978)**	9,827,727
Total reinsurers' share of gross earned premiums on insurance contracts (Note 18)	**580,583,771**	480,956,810
Total net insurance earned premiums (Note 18)	**₱1,356,862,341**	₱1,239,351,085

24. Investment and Other Income (Expense) - Net

This account consists of:

	2018	2017
Interest income:		
Bank deposits	**₱5,514,934**	₱3,665,066
Financial assets at amortized cost	**36,096,260**	–
Financial assets at FVOCI	**25,128,390**	–
AFS financial assets	–	48,189,130
Dividends:		
Relating to equity instruments at FVTPL derecognized during the year	**1,446,427**	–
Relating to equity instruments at FVTPL held at the end of the reporting period	**9,421,785**	–
Relating to equity instruments at FVOCI held at the end of the reporting period	**17,759,159**	–
Relating to AFS financial assets held at the end of the reporting period	–	22,976,080
Others:		
Net loss on financial assets at FVTPL	**(51,554,773)**	–

(Forward)

	2018	2017
Gain (loss) on sale of debt investments at FVOCI/AFS financial assets	**(₱2,007,715)**	₱33,591,143
Gain on sale of property and equipment (Note 14)	**160,094**	961,359
Foreign exchange gain - net	**3,396,733**	1,424,991
Impairment loss (Notes 4, 5, 6 and 9)	**(1,231,197)**	(1,938,026)
Others	**25,890**	2,326,725
	₱44,155,987	₱111,196,468

25. **Net Insurance Benefits and Claims**

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

	2018	2017
Insurance contract benefits and claims paid:		
Direct insurance	**₱625,050,104**	₱422,399,728
Assumed reinsurance	**13,404,282**	11,279,753
Total insurance contract benefits and claims paid (Note 18)	**₱638,454,386**	₱433,679,481

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

	2018	2017
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	**₱66,981,146**	₱28,172,875
Assumed reinsurance	**11,807,279**	8,408,210
Total reinsurers' share of insurance contract benefits and claims paid (Note 18)	**₱78,788,425**	₱36,581,085

Gross change in insurance contract liabilities consists of the following:

	2018	2017
Change in provision for claims reported (Note 18):		
Direct insurance	**(₱54,296,864)**	₱300,965,766
Assumed reinsurance	**(2,115,280)**	5,442,531
Change in provision for IBNR	**82,845,730**	(33,611,944)
Total gross change in insurance contract liabilities	**₱26,433,586**	₱272,796,353

Reinsurers' share of gross change in insurance contract liabilities consists of the following:

	2018	2017
Reinsurers' share of gross change in insurance contractliabilities (Note 18):		
Direct insurance	**(₱8,898,474)**	₱96,790,156
Reinsurers' share of change in provision for IBNR	**68,921,640**	5,302,750
Total reinsurers' share of gross change in insurance contract liabilities	**₱60,023,166**	₱102,092,906

26. Operating Expenses and Other Underwriting Expenses

This account consists of:

	2018	2017
Salaries and employee benefits (Note 27)	**₱106,583,914**	₱95,796,234
Outside services	**27,537,761**	22,731,453
Advertising and promotion	**14,714,628**	11,173,181
Rent	**12,983,231**	11,734,420
Communication, light and water	**9,179,655**	8,408,755
Taxes and licenses	**8,925,349**	3,494,710
Repairs and maintenance	**7,722,271**	6,938,672
Printing and office supplies	**7,588,583**	6,402,800
Data processing charges	**4,345,429**	3,321,252
Transportation and travel	**3,896,547**	5,934,399
Depreciation and amortization (Notes 14 and 15)	**3,800,271**	3,561,269
Agency fees	**3,420,100**	2,930,081
Entertainment, amusement and recreation	**3,407,007**	3,738,837
Directors' fees	**1,926,232**	1,920,000
Insurance	**1,343,123**	1,325,623
Provision (reversal of provision) for credit losses (Notes 4, 5, 6 and 9)	**1,101,001**	(768,226)
Survey fees	**447,786**	749,460
Bank charges	**254,480**	335,363
Miscellaneous	**4,760,999**	5,358,486
Total Operating Expenses	**₱223,938,367**	₱195,086,769

Other underwriting expenses amounted to ₱18,369,173 and ₱19,856,447 in 2018 and 2017, respectively, as presented in the statements of income. These generally pertain to the Company's share of the administrative and miscellaneous expenses reported by Philippine Accident Managers, Inc. and overseas Filipino workers' accounts.

27. **Retirement Benefit Asset (Liability)**

The Company has a funded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The plan provides a retirement benefit equal to one hundred percent (100%) of Plan Salary for every year of credited service plus retirement bonus, if any. The plan is administered by a local bank as trustee.

The amount of retirement benefit asset (liability) recognized in the statements of financial position as of December 31, 2018 and 2017 follow:

	2018	2017
Present value of defined benefit obligation	**(₱48,356,147)**	(₱49,236,300)
Fair value of plan assets	**49,745,784**	42,361,454
Funding status	**1,389,637**	(6,874,846)
Effect of asset ceiling	**(99,352)**	–
Retirement benefit asset (liability)	**₱1,290,285**	(₱6,874,846)

Changes in present value of the defined benefit obligation as of December 31, 2018 and 2017 recognized in the statements of financial position follows:

	2018	2017
Balance at beginning of year	**₱49,236,300**	₱41,262,705
Current service cost	**5,910,706**	5,605,727
Interest cost	**2,791,698**	2,434,500
Benefits paid	**(370,857)**	(585,318)
Remeasurement (gains) losses		
Actuarial gains (losses) arising from changes in financial assumptions	**(9,911,023)**	1,109,103
Experience adjustments	**699,323**	(590,417)
Balance at end of year	**₱48,356,147**	₱49,236,300

Changes in the fair value of plan assets are as follow:

	2018	2017
Balance at beginning of year	**₱42,361,454**	₱37,390,795
Contributions	**8,444,318**	5,441,382
Interest income	**2,630,777**	2,349,311
Benefits paid	**(370,857)**	(585,318)
Return on plan assets excluding amount in net interest income	**(3,319,908)**	(2,234,716)
Balance at end of year	**₱49,745,784**	₱42,361,454

The amounts of defined benefit cost that is included under 'Salaries and employee benefits' in operating expenses follow:

	2018	2017
Current service cost	**₱5,910,706**	₱5,605,727
Net interest cost	**160,921**	85,189
	₱6,071,627	₱5,690,916

The amounts of defined benefit cost which is included in OCI related to remeasurement of retirement benefit liability follow:

	2018	2017
Actuarial loss on present value of retirement obligation	**₱9,211,700**	(₱518,686)
Return on plan assets excluding amount in net interest cost	**(3,319,908)**	(2,234,716)
Effect of asset ceiling	**(99,352)**	–
	5,792,440	(2,753,402)
Less income tax effect	**1,737,732**	(826,021)
	₱4,054,708	(₱1,927,381)

The fair values of plan assets by each class as at December 31, 2018 and 2017 are as follow:

	2018	2017
Cash and cash equivalents	**₱6,943,061**	₱1,470,682
Investments in:		
Government securities	**30,024,506**	26,048,831
Unit investment trust fund	**8,151,256**	10,073,530
Private securities	**4,343,173**	4,200,954
Accrued trust fees	**(53,125)**	(43,656)
Others	**336,913**	611,113
Total plan assets	**₱49,745,784**	₱42,361,454

Cash and cash equivalents include cash in savings deposit, special savings deposit, and time deposit accounts. Investments in debt instruments under government securities pertain to investments in retail treasury bonds while investments in debt instruments under private securities consist of investment in commercial papers, installment receivables and interest receivables.

All debt instruments held, except various receivables, have quoted prices in active market. The remaining plan assets are carried at their carrying amounts since the carrying amounts approximate the fair values.

The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used to determine pension benefits for the Company are as follows:

	2018	2017
Discount rate	**7.70%**	5.67%
Expected salary rate increase	**7.00%**	7.00%

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

	2018	
	Change in variables	**Impact on present value of defined benefit obligation Increase (decrease)**
Discount rate	+100 bps	**(₱3,735,062)**
	-100 bps	**4,432,142**
Salary increase rate	+100 bps	**₱4,418,713**
	-100 bps	**(3,790,085)**

	2017	
	Change in variables	Impact on present value of defined benefit obligation Increase (decrease)
Discount rate	+100 bps	(₱4,498,721)
	-100 bps	5,426,932
Salary increase rate	+100 bps	₱4,797,289
	-100 bps	(4,067,650)

The Company does not expect any contribution to the plan for the next reporting period.

In 2018 and 2017, the weighted average duration of the retirement benefit obligation is 8.40 years and 10.10 years, respectively.

Maturity profile of the expected undiscounted benefit payments are as follow:

Financial Year	**Amount**
Year 1	**₱4,647,546**
Year 2	**10,400,591**
Year 3	**719,072**
Year 4	**18,070,115**
Year 5	**996,194**
Year 6 to Year 10	**15,168,633**

28. Income Tax

Provision for income tax consists of:

	2018	2017
Current		
RCIT	**₱41,855,245**	₱29,973,858
Final	**13,788,031**	10,603,636
	55,643,276	40,577,494
Deferred	**(15,998,754)**	–
	₱39,644,522	₱40,577,494

In 2018 and 2017, the Company recognized provision for deferred tax asset and deferred tax liability directly to OCI amounting to ₱1,737,732 and ₱826,021, respectively. The components of the Company's net deferred tax asset consist of the tax effects of the following:

	2018	2017
Deferred tax assets on:		
Provision for IBNR - net	**₱21,072,419**	₱–
Allowance for credit losses	**6,349,150**	6,535,649
Retirement benefit liability	–	2,096,804
Total deferred tax assets	**27,421,569**	8,632,453
Deferred tax liabilities on:		
Unrealized foreign exchange gain	**1,019,019**	427,497
Retirement benefit asset	**387,086**	–
Total deferred tax liabilities	**1,406,105**	427,497
Net deferred tax assets	**₱26,015,464**	₱8,204,956

As of December 31, 2018 and 2017, the Company's recognized deferred tax asset related to OCI amounted to ₱624,752 and ₱3,131,610, respectively.

The table below shows the temporary differences for which no deferred tax assets have been recognized as management believes that it is not probable that the related tax benefit will be realized prior to its reversal or expiry.

	2018	2017
Unamortized past service cost	**₱11,318,634**	₱11,072,780
Accrued expense	**2,816,107**	2,506,273
Provision for IBNR - net	–	56,317,303

The reconciliation of income before income tax computed at the statutory income tax rate to effective income tax follows:

	2018	2017
Tax at statutory income tax rate	**₱53,292,768**	₱55,861,231
Adjustments for:		
Nondeductible expenses and losses	**22,883,784**	1,958,144
Income subjected to lower tax rate	**(4,981,490)**	–
Interest income subjected to final tax	**(6,233,844)**	(4,952,623)
Nontaxable income	**(8,588,211)**	(16,970,167)
Change in unrecognized deferred tax assets	**(16,728,485)**	4,680,909
Provision for income tax	**₱39,644,522**	₱40,577,494

29. **Management of Capital, Insurance and Financial Risks**

Governance Framework
The primary objective of the Company's risk and financial management framework is to ensure that the risks related to the Company are managed through a systematic and consistent risk management process. The Company recognizes the critical importance of having efficient and effective risk management systems in place.

The Company is guided by its standard operating procedures and internal control procedures designed to ensure attainment of the Company objective. More so it is strongly backed up by its strong treaty agreements, which more or less limits the risk acceptance.

The Company, through its Risk Management Committee, has already adopted the Enterprise Risk Management Framework of the Parent Company tailored to fit the Company's operations. The framework outlines the structure of the Risk Management Organization and defines the integral role of each position as well as provides the reportorial requirements and processes.

The Risk Management Committee is composed of not less than (3) members of the Board whereas, the Chief Underwriting Technical is appointed as the Risk Champion. To serve as member of the organization, the head of each department are automatically called the Risk Owner.

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., fixed capitalization requirements and risk-based capital requirements).

Capital Management Framework
The primary objectives of the Company's capital management is to ensure that the Company complies with externally imposed capital requirement and that the Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is higher than the minimum capital requirements set by the regulators as imposed under Department of Finance Order (DO) 27-06 and the amount computed under the Risk Based Capital (RBC) Framework.

The Company reviews the capital requirements through monthly computation of the 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 annual BOD meeting. Evidently, they have shown their commitment to comply with this regulation, same as prior years when they willingly infused additional cash as the need arises.

Unimpaired capital requirement
Republic Act No. 10607, *New Insurance Code* provides the capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022 as follows:

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

IC CL No. 2015-02-A also requires that the minimum networth of insurance companies shall remain unimpaired at all times and shall increase to the amounts provided in RA No. 10607, *New Insurance Code*. Based on the latest synopsis issued by the IC as of December 31, 2017, the statutory networth of the Company amounted to ₱808,743,808 exceeding the ₱550,000,000 requirement by ₱258,743,808.

In 2016, the Parent Company infused capital of ₱300,000,000 presented as 'Deposit for future stock subscription' pending the approval of Philippine SEC of the Company's application for the increase in authorized capital stock.

In 2017, the Company issued 300,000 shares at ₱1,000 per share and reclassified the 'Deposit for future stock subscription' to 'Capital stock' (see Note 22).

Financial Reporting Framework
On December 28, 2016, IC issued Circular No. 2016-65 relating to financial reporting framework under section 189 of the Republic Act No. 10607 known as the "New Insurance Code" to clarify the rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all the other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies. The circular enumerated the list of admitted and non-admitted assets and investments. It includes the manual of accounts which enumerates certain admitted assets not specifically listed in Section 202 of the New Insurance Code. The circular takes effect beginning January 1, 2017.

Risk-based Capital Ratio
Under existing IC regulations, the determination of the Company's compliance with regulatory requirements and ratios is based on the amount of the Company's unimpaired capital (regulatory net worth), determined on the basis of regulatory framework.

Effective January 1, 2017, the Company complied with the IC issued CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework* which provides the quantitative requirements in relation to the calculation of capital requirements and recognition of eligible capital. The circular sets out a minimum RBC ratio of 100%. Under the amended RBC2 Framework, RBC ratios is the total available capital expressed as a percentage of RBC requirement. Total available capital is the aggregate of Tier 1 and Tier 2 capital minus deductions determined on the basis of regulatory framework and subject to applicable limits. The RBC requirement is the capital that is required to be held appropriately to the risks and insurance company is exposed to.

The risk-based capital ratio reported to the IC as of December 31, 2018 and 2017, respectively, are shown below:

	2018	2017
Total available capital	**₱1,182,611,018**	₱1,040,014,240
RBC requirement	**581,990,829**	519,939,420
RBC Ratio	**203%**	200%

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 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 Company principally issues the following types of general insurance contracts: fire, motor, health and accident, aviation/hull, marine, engineering, professional indemnity, bonds, fidelity guarantee and surety. Risks under general insurance policies usually cover twelve-month duration.

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, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example, hurricanes, earthquakes and flood damages.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by management.

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

	2018		
	Gross claim liabilities	**Reinsurers' share of claims liabilities**	**Net claims liabilities**
Fire	**₱367,397,678**	**₱173,905,263**	**₱193,492,415**
Motor	**317,165,786**	**3,640,986**	**313,524,800**
Engineering	**68,551,729**	**40,070,726**	**28,481,003**
Bonds	**63,752,532**	**18,996,167**	**44,756,365**
General Accounts*	**51,955,067**	**14,214,078**	**37,740,989**
Marine	**47,683,243**	**27,465,875**	**20,217,368**
Personal Accident	**11,578,271**	**1,550,913**	**10,027,358**
Total	**₱928,084,306**	**₱279,844,008**	**₱648,240,298**

*Includes Fidelity Guarantee, Money, Securities and Payroll Robbery, Public Liability, Burglary and Robbery, Property and Equipment Floater, All Risks, Professional Indemnity, and Miscellaneous Claims.

	2017		
	Gross claim liabilities	Reinsurers' share of claims liabilities	Net claims liabilities
Fire	₱401,730,992	₱180,692,993	₱221,037,999
Motor	358,916,052	12,298,839	346,617,213
General Accounts*	75,720,160	36,053,044	39,667,116
Marine	67,413,295	31,725,381	35,687,914
Bonds	42,594,820	13,662,182	28,932,638
Engineering	26,342,910	13,006,561	13,336,349
Personal Accident	11,778,221	1,303,482	10,474,739
Total	₱984,496,450	₱288,742,482	₱695,753,968

*Includes Fidelity Guarantee, Money, Securities and Payroll Robbery, Public Liability, Burglary and Robbery, Property and Equipment Floater, All Risks, Professional Indemnity, and Miscellaneous Claims.

Terms and Conditions

The major classes of general insurance written by the Company include fire, motor, and marine insurance.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policyholders and 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 end of the reporting period.

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.

Claims provisions are separately analyzed by class of business. In addition, larger claims are usually either separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide a best estimate of the most likely or expected outcome.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions include variation in interest rate, delays in settlement and changes in foreign currency rates.

Sensitivities
The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain assumptions such as legislative change, uncertainty in the estimation process, etc., is not possible to quantify.

The analysis below is performed for a reasonable possible movement in key assumptions with all other assumptions held constant, on the statement of comprehensive income and equity.

	2018				
	Change in assumptions	**Increase on gross liabilities**	**Increase on net liabilities**	**Decrease on profit before tax**	**Decrease on Equity**
Average claim cost	**+15%**	**₱139,212,646**	**₱97,236,045**	**(₱97,236,045)**	**(₱68,065,232)**
Average number of claims	**+10%**	**92,808,431**	**64,824,030**	**(64,824,030)**	**(45,376,821)**

	2017				
	Change in assumptions	Increase on gross liabilities	Increase on net liabilities	Decrease on profit before tax	Decrease on Equity
Average claim cost	+15%	₱147,674,468	₱104,363,095	(₱104,363,095)	(₱73,054,167)
Average number of claims	+10%	98,449,645	69,575,397	(69,575,397)	(48,702,778)

Claims Development Table
Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis.

The tables reflect the cumulative incurred claims for each successive accident year at each end of the reporting period with cumulative payments to date. The same is the basis in the actuarial valuation of NMG Consulting, the Company's independent actuary.

As of December 31, 2018, the Company recognized provision for IBNR of ₱70,241,396 net of reinsurance which includes an MfAD of ₱43,895,000 set at 100%.

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. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

Accident Year/ Development year	Gross Insurance Liabilities 1	2	3	4	5	6	7	8	9	10	11	12	Total
<=2007	₱1,223,677,989	₱1,438,931,127	₱1,505,991,148	₱1,541,690,204	₱1,523,534,119	₱1,517,579,159	₱1,516,617,872	₱1,517,186,416	₱1,518,309,799	₱1,518,770,313	₱1,523,332,682	₱1,523,702,584	₱17,869,323,412
2008	317,866,976	321,010,377	325,672,237	316,347,403	314,387,979	314,460,752	314,709,864	315,068,781	315,475,331	315,179,040	315,184,014		3,485,362,754
2009	685,987,404	618,994,018	662,545,008	663,878,685	663,812,377	662,759,070	655,384,142	655,523,171	655,090,741	655,117,991			6,579,092,607
2010	323,743,628	302,300,532	317,840,726	323,560,291	321,185,828	320,940,164	320,658,172	319,592,702	319,612,603				2,869,434,646
2011	357,215,742	339,883,749	340,339,886	321,170,838	318,870,374	318,100,345	317,554,681	318,174,931					2,631,310,546
2012	417,273,319	381,289,376	352,982,596	349,361,403	347,347,017	346,332,132	344,420,122						2,539,005,965
2013	818,711,606	702,425,653	658,753,812	649,414,577	645,436,214	632,056,208							4,106,798,070
2014	433,750,968	388,863,752	367,339,994	335,242,981	336,923,201								1,862,120,896
2015	523,181,552	480,792,405	432,917,350	413,331,599									1,850,222,906
2016	595,929,465	606,243,715	571,437,917										1,773,611,097
2017	809,438,786	683,747,011											1,493,185,797
2018	800,406,224												800,406,224
Current estimate of cumulative claims	800,406,224	683,747,011	571,437,917	413,331,599	336,923,201	632,056,208	344,420,122	318,174,931	319,612,603	655,117,991	315,184,014	1,523,702,584	6,914,114,405
Cumulative payments to date	249,612,982	503,480,393	441,376,275	397,707,379	318,916,968	617,274,737	342,784,913	317,859,260	314,612,603	643,917,991	314,784,014	1,523,702,584	5,986,030,099
Total gross insurance liabilities included in the statement of financial position	₱550,793,242	₱180,266,618	₱130,061,642	₱15,624,220	₱18,006,233	₱14,781,471	₱1,635,209	₱315,671	₱5,000,000	₱11,200,000	₱400,000	₱–	₱928,084,306

Accident Year/ Development year	Net Insurance Liabilities 1	2	3	4	5	6	7	8	9	10	11	12	Total
<=2007	₱698,752,198	₱870,395,112	₱971,744,401	₱1,011,638,935	₱1,026,422,297	₱1,023,411,095	₱1,022,308,511	₱1,022,507,200	₱1,022,747,192	₱1,022,806,419	₱1,023,077,602	₱1,023,094,228	₱11,738,905,190
2008	152,090,961	163,243,902	170,184,058	163,035,192	161,559,070	161,631,337	161,269,174	161,288,734	161,336,892	161,347,259	161,348,727		1,778,335,306
2009	193,717,967	206,131,148	207,012,280	209,203,383	209,472,394	208,566,040	207,039,998	207,180,113	207,157,259	207,184,508			2,062,665,090
2010	182,939,074	161,426,477	166,361,396	166,154,525	164,293,769	164,503,441	164,380,336	164,255,881	164,273,958				1,498,588,857
2011	197,949,481	192,912,185	192,756,495	182,280,017	181,194,644	181,226,741	181,113,858	181,384,725					1,490,818,146
2012	203,181,448	210,847,629	197,301,492	197,375,103	197,237,012	196,877,498	195,523,507						1,398,343,689
2013	289,705,937	276,370,600	240,558,666	248,497,697	247,881,161	246,710,562							1,549,724,623
2014	292,646,569	280,910,279	267,794,146	252,977,567	252,420,080								1,346,748,641
2015	436,999,411	394,550,810	365,304,569	346,294,850									1,543,149,640
2016	519,790,149	507,324,277	466,446,634										1,493,561,060
2017	662,839,506	591,743,711											1,254,583,217
2018	651,473,634												651,473,634
Current estimate of cumulative claims	651,473,634	591,743,711	466,446,634	346,294,850	252,420,080	246,710,562	195,523,507	181,384,725	164,273,958	207,184,508	161,348,727	1,023,094,228	4,487,899,124
Cumulative payments to date	243,190,016	461,991,129	382,602,318	331,605,972	244,010,663	244,613,745	194,887,675	181,352,394	163,845,833	207,163,508	161,301,345	1,023,094,228	3,839,658,826
Total net insurance liabilities included in the statement of financial position	₱408,283,618	₱129,752,582	₱83,844,316	₱14,688,878	₱8,409,417	₱2,096,817	₱635,832	₱32,331	₱428,125	₱21,000	₱47,382	₱–	₱648,240,298

Fair Value of Financial Instruments

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

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.

Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, accrued income, insurance payables, accounts payable and commission payable, their carrying values reasonably approximate fair values as of December 31, 2018 and 2017.

The fair value of debt instruments under FVOCI and FVTPL in 2018 and AFS financial assets in 2017 that are actively traded in organized financial markets is determined by reference to quoted market prices within the bid-offer price range, at the close of business at the end of the reporting period or the last trading day as applicable.

The fair value of equity instruments under FVOCI and FVTPL in 2018 and AFS financial assets in 2017 that are actively traded in Philippines Stock Exchange (PSE) is determined by reference to closing price as published in PSE.

The table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

	2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Listed equity securities					
Common shares	₱492,891,987	₱492,891,987	₱–	₱–	₱492,891,987
Financial assets at FVOCI:					
Listed equity securities:					
Common shares	277,642	277,642	–	–	277,642
Preferred shares	278,236,190	278,236,190	–	–	278,236,190
Club shares	5,700,000	–	5,700,000	–	5,700,000
Government debt securities	491,958,367	491,958,367	–	–	491,958,367
Private debt securities	47,433,189	47,433,189	–	–	47,433,189
	₱1,316,497,375	**₱1,310,797,375**	**₱5,700,000**	**₱–**	**₱1,316,497,375**
Assets for which fair values are disclosed					
Financial assets at amortized cost:					
Investment securities					
Government	₱140,000,000	₱104,491,749	₱–	₱–	₱104,491,749
Private	750,110,000	659,259,533	–	–	659,259,533
	₱890,110,000	**₱763,751,282**	**₱–**	**₱–**	**₱763,751,282**

	2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value					
Financial assets					
Available-for sale financial assets:					
Listed equity securities					
Common shares	₱463,467,860	₱463,467,860	₱–	₱–	₱463,467,860
Preferred shares	291,213,250	291,213,250	–	–	291,213,250
Club shares	3,300,000	–	3,300,000	–	3,300,000
Government debt securities	603,958,546	603,958,546	–	–	603,958,546
Private debt securities	603,354,774	603,354,774	–	–	603,354,774
	₱1,965,294,430	₱1,961,994,430	₱3,300,000	₱–	₱1,965,294,430

As of December 31, 2018 and 2017, no transfers were made among the three levels in the fair value hierarchy.

Financial Risk

The Company is exposed to financial risk through its financial assets and financial liabilities, particularly, credit risk, liquidity risk, and market risk (foreign exchange, interest rate, and equity price risks). The BOD reviews and amends policies for managing each of these risks.

Credit risk

Credit risk is the risk that one party to a financial instrument, insurance contract issued in an asset position or reinsurance contract held will cause a financial loss for the other party by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk.

The Company's credit risk policy sets out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company's risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Credit risk relating to financial instruments is monitored by the Company's investment team. It is their responsibility to review and manage credit risk, including environmental risk for all counterparties. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits. It is the Company's policy to invest in high quality financial instruments with a low risk of default. If there is a significant increase in credit risk, the policy dictates that the instrument should be sold and amounts recovered reinvested in high quality instruments.

Regular review of company policies is being conducted to ensure proper monitoring of direct and reinsurance receivables versus payables. The Company reserves the right to offset where counterparties are both debtors and creditors; cancel policies which are beyond the credit-term or those with lesser probability of being collected and terminate contract which the management believes to be non-productive. Commissions and claims are likewise being used as leverage to collect from counterparty. In the event of a major loss, the Company is backed up by reinsurers with strong financial standing.

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 reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs.

The nature of the Company's exposure to credit risks and its objectives, policies and processes used to manage and measure the risks have not changed from the previous period.

Credit limits are also used to manage credit exposure specific to each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 17. The Company does not enter into collateral or credit enhancements. The Company manages its credit exposure based on the carrying value of the financial instruments and insurance and reinsurance contract assets.

Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

The Company's investment team prepares internal ratings for instruments held in which its counterparties are rated using internal grades (high grade, standard grade, sub-standard grade, past due but not impaired and individually impaired). The ratings are determined incorporating both qualitative and quantitative information that builds on information from Philippine Rating Services Corporation, supplemented with information specific to the counterparty and other external information that could affect the counterparty's behavior. These information sources are first used to determine whether an instrument has had a significant increase in credit risk (see Note 2).

The following are the details of the Company's assessment of credit quality and the related ECLs as at December 31, 2018 and 2017:

a. *Cash in bank and short-term investments*
   These are classified as high grade. These are deposited, placed or invested in local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b. *Insurance receivables and other receivables*
   These are classified as either high grade or past due. High grade is given to counterparties having good standing in terms of credit and paying habits. Accounts beyond the standard 90-day credit terms are classified as past due. Although categorized as past due, these are highly collectible accounts based on Company's experience. Normally, these are corporate accounts wherein the Company has reciprocity of business.

c. *Debt securities*
   These are classified as High grade. The government debt securities are issued by the Philippine Government and are considered as risk-free debt securities. The corporate debt securities are issued by stable companies and are considered to be of high creditworthiness.

Cash in bank, short-term investment and debt instruments at FVOCI are classified as high grade as of December 31, 2018, all of which are classified under Stage 1.

Set out below is the information about the credit risk exposure on the Company's insurance receivables using a provision matrix as of December 31, 2018:

		Days past due					
	Current**	**< 30 days**	**31 to 60 days**	**61 to 90 days**	**> 90 days**	**Impaired***	**Total**
Expected loss rate	**0.09%**	**0.83%**	**1.33%**	**1.90%**	**20.00%**	**100.00%**	**0.09%**
Gross amount of insurance receivables	**₱421,689,457**	**₱72,708,782**	**₱35,430,607**	**₱25,381,257**	**₱56,655,679**	**₱7,068,510**	**618,933,992**
Expected credit loss	**353,000**	**687,138**	**506,806**	**504,051**	**4,128,552**	**7,068,510**	**31,248,057**

**consists of specifically impaired reinsurance recoverable on paid losses under PAS 39*

***includes unimpaired reinsurance recoverable on paid losses under PAS 39*

Applicable for year ended December 31, 2017

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.

	2017					
	Neither past due nor impaired			Past due but		
	High	Medium	Low	not impaired	Impaired	Total
Cash and cash equivalents*	₱300,924,957	₱–	₱–	₱–	₱–	₱300,924,957
Short-term investments	55,381,058	–	–	–	–	55,381,058
Insurance receivables:						
Due from brokers and agents	380,694,984	–	–	147,229,458	3,361,165	531,285,607
Due from ceding companies	384,734	–	–	6,889,498	141,201	7,415,433
Funds held by ceding company	5,492,472	–	–	–	–	5,492,472
Reinsurance recoverable on paid losses	2,471,706	–	–	2,420,186	18,283,131	23,175,023
Financial assets:						
Investments:**						
Debt securities	1,207,313,320	–	–	–	–	1,207,313,320
Receivables:						
Accounts receivable	32,192,975	–	–	–	–	32,192,975
Miscellaneous receivables	795,786	–	–	–	–	795,786
Accrued income	13,828,216	–	–	–	–	13,828,216
Total	₱1,999,480,208	₱–	₱–	₱156,539,142	₱21,785,497	₱2,177,804,847

**Excluding cash on hand*
***Excluding equity securities*

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

	2017				
	Age analysis of financial assets past-due but not impaired				Totalpast due but
	< 30 days	31 to 60 days	61 to 90 days	> 90 days	not impaired
Insurance receivables					
Due from brokers and agents	₱53,024,169	₱33,593,540	₱26,564,778	₱34,046,971	₱147,229,458
Due from ceding companies	3,528,031	986,886	810,943	1,563,638	6,889,498
Reinsurance recoverable on paid losses	1,918,052	502,134	–	–	2,420,186
	₱58,470,252	₱35,082,560	₱27,375,721	₱35,610,609	₱156,539,142

The standard credit-term given by the Company is 90 days. However, accounts more than 90 days may be past due but not necessarily impaired. A 180-day credit-term may be given to those accounts with reciprocal business and those accounts involving bigger amount of sum insured or fleet accounts which as practiced are subject to quarterly remittance scheme.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

The Company holds sufficient liquid assets to enable it to continue normal operations. To achieve this objective, the Company positions its investments to match the projected cash requirements.

To strike the optimal balance between generating adequate investment returns and holding securities that can be easily sold for cash if required, the Company divides its investment portfolio into tranches with liquidity objective and benchmarks. The Company's core liquidity portfolio is invested in relatively liquid securities that can be readily sold if required. In addition to the core portfolio, the Company maintains a second tranche of liquidity that is always invested in the most highly liquid securities to cover its expected operational cash flow needs. The third tranche of liquidity are the Company's equity resources held together with a portfolio of fixed income securities which are both designated as FVOCI.

Maturity profiles
The table below summarizes the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual maturities based on remaining contractual obligations, or for the insurance contract liabilities, based on the estimated timing of net cash outflows. For financials assets at FVTPL and FVOCI, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the expected date the assets will be realized.

	2018				
	Within a year	**2-3 years**	**4-5 years**	**Over 5 years**	**Total**
Cash and cash equivalents*	**₱251,926,184**	**₱–**	**₱–**	**₱–**	**₱251,926,184**
Short-term investments*	**57,477,746**	–	–	–	**57,477,746**
Insurance receivables	**618,933,993**	–	–	–	**618,933,993**
Financial assets at fair value through profit or loss	**492,891,987**	–	–	–	**492,891,987**
Financial assets at fair value through other comprehensive income*	**125,883,325**	**122,131,994**	**455,603,444**	**227,250,398**	**930,869,161**
Financial assets at amortized cost*	–	**95,969,332**	**439,600,788**	**542,068,013**	**1,077,638,133**
Receivables	**1,147,021**	–	–	–	**1,147,021**
Accrued income	**15,345,364**	–	–	–	**15,345,364**
Reinsurance assets	**417,805,380**	–	–	–	**417,805,380**
Total financial assets	**₱1,981,411,000**	**₱218,101,326**	**₱895,204,232**	**₱769,318,411**	**₱3,864,034,969**
Insurance contract liabilities	**₱1,136,287,074**	**₱–**	**₱–**	**₱–**	**₱1,136,287,074**
Insurance payables	**172,772,284**	–	–	–	**172,772,284**
Accounts payable and other liabilities**	**115,489,338**	–	–	–	**115,489,338**
Commission payable	**118,527,068**	–	–	–	**118,527,068**
Total financial liabilities	**₱1,543,075,764**	**₱–**	**₱–**	**₱–**	**₱1,543,075,764**

**Including future interest*
***Excluding statutory liabilities*

	2017				
	Within a year	2-3 years	4-5 years	Over 5 years	Total
Cash and cash equivalents*	₱301,236,337	₱–	₱–	₱–	₱301,236,337
Short-term investments*	55,565,911	–	–	–	55,565,911
Insurance receivables	567,368,535	–	–	–	567,368,535
AFS securities*	39,889,918	144,632,832	648,560,987	1,428,679,907	2,261,763,644
Receivables	32,988,761	–	–	–	32,988,761
Accrued income	13,828,216	–	–	–	13,828,216
Reinsurance assets	357,782,215	–	–	–	357,782,215
Total financial assets	₱1,368,659,893	₱144,632,832	₱648,560,987	₱1,428,679,907	₱3,590,533,619
Insurance contract liabilities	₱1,109,853,486	₱–	₱–	₱–	₱1,109,853,486
Insurance payables	106,550,170	–	–	–	106,550,170
Accounts payable and other liabilities**	74,672,522	–	–	–	74,672,522
Commission payable	132,810,620	–	–	–	132,810,620
Total financial liabilities	₱1,423,886,798	₱–	₱–	₱–	₱1,423,886,798

**Including future interest*
*** Excluding statutory liabilities*

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

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

(a) *Currency risk*
Currency risk is the risk that the value of the financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in Philippine Peso and foreign currency-denominated transactions are primarily in terms of the US Dollar. The following tables show the Company's exposure to currency risk:

	2018		2017	
	USD	**PHP**	USD	PHP
Financial assets:				
Cash and cash equivalents	**$1,271,984**	**₱66,880,940**	$1,232,769	₱61,613,795
Due from brokers and agents	**862,474**	**45,348,883**	456,121	22,796,928

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

	2018	
	Change in variables	**Impact on profit before tax Increase (decrease)**
USD	**+5.00%**	**₱3,344,025**
USD	**–5.00%**	**(3,344,025)**

	2017	
	Change in variables	Impact on profit before tax Increase (decrease)
USD	+5.00%	₱3,077,599
USD	–5.00%	(3,077,599)

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

(b) *Interest risk*
Interest rate risk arises from the possibility that the future cash flows of a financial instrument will fluctuate because of changes in interest rates.

In 2018 and 2017, the Company has no exposure to interest rate risk since its financial instruments are not subject to floating interest rate.

(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 at FVTPL and FVOCI in 2018 and AFS equity securities in 2017.

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 income before tax for financial assets at FVTPL and on equity for financial assets at FVOCI and AFS financial assets (the impact on equity excludes the impact on income before tax).

		2018	
Market Index	**Change in PSEi**	**Impact on income before tax Increase (decrease)**	**Impact on equity Increase (decrease)**
PSEi 2018	**+12.76%**	**₱8,622,944**	**₱39,974,005**
PSEi 2018	**-12.76%**	**(8,622,944)**	**(39,974,005)**

	2017	
Market Index	Change in PSEi	Impact on equity Increase (decrease)
PSEi 2017	+12.33%	₱31,511,925
PSEi 2017	-12.33%	(31,511,925)

30. **Related Party Transactions**

Parties are 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, or if the parties are subject to common control or common significant influence. A related party may be an individual or a corporate entity.

In the ordinary course of business, the Company has transactions with related parties. As of December 31, 2018 and 2017, significant transactions with related party follow:

	2018		2017		
	Transactions during the year	**Outstanding balance**	Transactions during the year	Outstanding balance	Terms and conditions
MAA International Group Ltd. (Parent Company)					
Technical Fees	**₱11,031,350**	**₱–**	₱8,827,366	₱–	(a)
MAAXSITE Sdn. Bhd. (Affiliate)					
IT Consultant Fees	**2,426,159**	**–**	–	–	(a)
Short-term benefits					
Key management personnel	**28,177,462**	**–**	27,556,896	–	

(a) On-demand and non-interest bearing; cash-settled; unsecured with no impairment. Included under 'Outside services' in Note 26

31. **Contingencies**

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

32. **Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010**

In compliance with the requirements set forth by RR No. 15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year.

a. The Company is a VAT-registered company with VAT output tax declaration of ₱136,468,556 for the year based on the amount reflected in the Direct Premiums of ₱1,137,237,967.

   The Company has zero-rated sales amounting to ₱28,103,250 pursuant to the provisions of Republic Act No. 7227, RR No. 2-2005, and BIR Ruling ITAD-45-00.

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

	VAT Amount
Balance at beginning of year	₱8,907,088
Current year's purchases/payments:	
Goods other than for resale	26,567,431
Services paid lodged under operating expenses	49,357,261
	84,831,780
Input VAT applied against Output VAT	(69,847,410)
Balance at December 31	₱14,984,370

Taxes relating to nonlife insurance policies that have been shifted or passed on the policyholders and are not recognized in the statement of income follow:

Details of DST for following transactions during the year are:

Transaction	Amount	DST
DS110-Policies of insurance upon property	₱991,325,297	₱123,915,662
DS114-Motor	752,978,213	94,122,277
DS109-Accident and Health	151,334,705	1,150,004
	₱1,895,638,215	₱219,187,943

The total unpaid DST as at December 31, 2018 amounted to ₱6,026,641.

Other taxes paid during year follows:

Tax	Amount
Fire Service Taxes (FST)	₱4,294,276
Premium Taxes	2,435,858
Local Government Taxes (LGT)	1,377,605
	₱8,107,739

The total unpaid as at December 31, 2018 amounted to ₱16,680,152 which comprised of ₱662,837, ₱25,357, and ₱15,991,958 for Premium Taxes, FST, and LGT, respectively.

c. Details of other taxes, local and national, follow:

National:

	Amount
IC Fees	₱1,989,837
DST	178,403
LTO Registration Fees	37,654
Fringe benefit taxes	38,206
Total	₱2,244,100

Local:

	Amount
Real Estate Taxes	**₱49,207**
Others	**23,344**
Total	**₱72,551**

d. The amount of withholding taxes remitted for the year amounted to:

Expanded withholding taxes	**₱45,676,855**
Tax on compensation and benefits	**7,794,737**
Final withholding taxes	**1,521,717**
Total	**₱54,993,309**

The total unpaid withholding tax liabilities as at December 31, 2018 amounted to ₱3,951,816 which comprised of unpaid expanded withholding taxes and withholding taxes on compensation amounting to ₱2,762,431 and ₱1,189,385, respectively. In addition, the Company recognized accrual on expanded withholding taxes amounting to ₱94,620,356 as at December 31, 2018.

e. In 2018, the Company paid ₱3,077,714 and ₱3,302,145 as tax assessment for financial years 2014 and 2016, respectively. As at December 31, 2018, the Company has no outstanding tax assessment.