Bankers Assurance Corporation
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

Financial Statements
December 31, 2017 and 2016

and

Independent Auditors' Report

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Bankers Assurance Corporation

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Bankers Assurance Corporation (a wholly owned subsidiary of Malayan Insurance Co., Inc.), which comprise the statements of financial position, as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income (loss), statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

The supplementary information required under Revenue Regulations No. 15-2010 for the purpose of filing with the Bureau of Internal Revenue is presented by the management of Bankers Assurance Corporation in a separate schedule. Revenue Regulations No. 15-2010 requires the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Securities Regulation Code Rule 68, As Amended (2011). Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-3 (Group A),
March 16, 2017, valid until March 15, 2020
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621321, January 9, 2018, Makati City

April 11, 2018

BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

STATEMENTS OF FINANCIAL POSITION

	December 31		January 1
	2017	2016 (As restated - Note 2)	2016 (As restated - Note 2)
ASSETS			
Cash and Cash Equivalents			
(Notes 4, 21, 23 and 24)	**₱93,928,966**	₱158,843,950	₱56,942,705
Short-term Investments	**–**	–	6,588,729
Insurance Receivables - net			
(Notes 5, 21, 23 and 24)	**142,154,545**	93,429,732	57,199,463
Financial Assets (Notes 6, 23 and 24)			
Available-for-sale financial assets	**711,474,761**	523,048,212	603,282,873
Loans and receivables - net	**33,782,401**	20,977,675	94,723,421
Accrued Income (Notes 23 and 24)	**1,868,028**	1,650,417	2,400,338
Deferred Acquisition Costs (Note 7)	**21,214,496**	19,390,025	20,135,570
Reinsurance Assets (Notes 8, 12 and 23)	**1,045,701**	61,221,151	62,855,084
Property and Equipment - net (Note 9)	**1,360,746**	4,198,610	8,343,773
Deferred Tax Assets - net (Note 19)	**2,417,932**	279,891	1,922,052
Other Assets (Note 11)	**11,997,496**	12,328,504	16,640,773
	₱1,021,245,072	₱895,368,167	₱931,034,781
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities			
(Notes 12, 21, 23 and 24)	**₱144,378,784**	₱183,559,966	₱205,079,324
Insurance payables (Notes 13, 21, 23 and 24)	**2,492,128**	1,982,246	52,869,584
Accounts payable and accrued expenses			
(Notes 14, 21 and 24)	**42,751,582**	24,410,709	39,624,996
Deferred reinsurance commission (Note 7)	**–**	13,031	9,282
Net pension obligation (Note 10)	**4,448,621**	4,811,801	3,108,459
Income tax payable	**697,152**	556,440	275,311
Total Liabilities	**194,768,267**	215,334,193	300,966,956
Equity			
Capital stock (Note 22)	**350,000,000**	350,000,000	250,000,000
Capital in excess of par value	**50,000**	50,000	50,000
Revaluation reserve on available-for-sale			
financial assets (Note 6)	**382,989,214**	249,836,765	337,802,487
Remeasurement losses on net pension obligation			
(Note 10)	**(517,989)**	(1,705,589)	(377,121)
Retained earnings (Note 2)	**93,955,580**	81,852,798	42,592,459
Total Equity	**826,476,805**	680,033,974	630,067,825
	₱1,021,245,072	₱895,368,167	₱931,034,781

See accompanying Notes to Financial Statements

BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
INCOME		
Gross premiums earned	**₱83,135,399**	₱81,676,177
Reinsurers' share of gross premiums earned	**(2,619,751)**	4,050,963
Net premiums earned (Note 15)	**80,515,648**	85,727,140
Investment and other income - net (Notes 6 and 16)	**26,716,157**	33,961,175
Commission income (Note 7)	**18,307**	25,495
Other income	**26,734,464**	33,986,670
Total income	**107,250,112**	119,713,810
BENEFITS, CLAIMS AND EXPENSES (RECOVERIES)		
Gross insurance contract benefits and claims paid (Note 17)	**44,064,240**	94,364,811
Reinsurers' share of gross insurance contract benefits and claims paid (Note 17)	**(32,228,734)**	(73,654,429)
Gross change in insurance contract liabilities (Notes 2 and 17)	**(44,039,910)**	(17,944,075)
Reinsurers' share of gross change in insurance contract liabilities (Note 17)	**59,758,943**	1,819,896
Net insurance benefits and claims (recoveries) (Note 12)	**27,554,539**	4,586,203
General expenses (Note 18)	**36,198,791**	33,953,510
Commission expense (Note 7)	**26,274,611**	24,417,745
Investment and other expense (Notes 6 and 16)	**42**	129
Other underwriting expenses	**5,467,676**	13,396,569
Other Expenses	**67,941,120**	71,767,953
Total Benefits, Claims and Other Expenses	**95,495,659**	76,354,156
INCOME BEFORE INCOME TAX	**11,754,453**	43,359,654
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)	**(348,329)**	4,099,315
NET INCOME	**₱12,102,782**	₱39,260,339

See accompanying Notes to Financial Statements.

BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31	
	2017	2016
NET INCOME	**₱12,102,782**	₱39,260,339
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will be reclassified to profit or loss in subsequent periods:		
Net change in fair values of available-for-sale financial assets (Note 6)	**133,152,449**	(87,965,722)
Item that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement loss on net pension obligation, net of tax effect (Note 10)	**1,187,600**	(1,328,468)
	134,340,049	(89,294,190)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱146,442,831**	(₱50,033,851)

See accompanying Notes to Financial Statements.

BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 23)	Capital in Excess of Par Value	Revaluation Reserve on Available-for-Sale Financial Assets (Note 6)	Remeasurement Losses on Net Pension Obligation (Note 10)	Retained Earnings (As restated, Note 2)	Total
As of January 1, 2017						
As previously reported	**₱350,000,000**	**₱50,000**	**₱249,836,765**	**(₱1,705,589)**	**₱93,558,373**	**₱691,739,549**
Change in accounting policy (Note 2)	–	–	–	–	**(11,705,575)**	**(11,705,575)**
As restated (Note 2)	**350,000,000**	**50,000**	**249,836,765**	**(1,705,589)**	**81,852,798**	**680,033,975**
Net income for the year	–	–	–	–	**12,102,782**	**12,102,782**
Other comprehensive income	–	–	**133,152,449**	**1,187,600**	–	**134,340,049**
Total comprehensive income for the year	–	–	**133,152,449**	**1,187,600**	**12,102,782**	**146,442,831**
As of December 31, 2017	**₱350,000,000**	**₱50,000**	**₱382,989,214**	**(₱517,989)**	**₱93,955,580**	**₱826,476,805**
As of January 1, 2016						
As previously reported	₱250,000,000	₱50,000	₱337,802,487	(₱377,121)	₱44,306,867	₱631,782,233
Change in accounting policy (Note 2)					(1,714,408)	(1,714,408)
As restated (Note 2)	250,000,000	50,000	337,802,487	(377,121)	42,592,459	630,067,825
Issuance of shares	100,000,000					100,000,000
Sub-total	350,000,000	50,000	337,802,487	(377,121)	42,592,459	730,067,825
Net income for the year, as restated (Note 2)	–	–	–	–	39,260,339	39,260,339
Other comprehensive loss	–	–	(87,965,722)	(1,328,468)	–	(89,294,190)
Total comprehensive income (loss) for the year, as restated (Note 2)	–	–	(87,965,722)	(1,328,468)	39,260,339	(50,033,851)
As of December 31, 2016, as restated (Note 2)	₱350,000,000	₱50,000	₱249,836,765	(₱1,705,589)	₱81,852,798	₱680,033,974

See accompanying Notes to Financial Statements.

BANKERS ASSURANCE CORPORATION
(A Wholly Owned Subsidiary of Malayan Insurance Co., Inc.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016 As restated (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱11,754,453**	₱43,359,654
Adjustments for:		
Depreciation (Notes 9 and 18)	**3,433,598**	4,394,420
Net pension cost (Notes 10 and 18)	**1,333,391**	1,061,701
Gain on sale of available-for-sale financial assets (Notes 6 and 16)	**–**	(68,717)
Unrealized foreign exchange gain (Note 16)	**(199,131)**	(4,408,020)
Interest income (Note 16)	**(10,048,293)**	(7,914,011)
Dividend income (Note 16)	**(15,990,667)**	(19,425,674)
Amortization of premium (Note 6)	**609,170**	715,020
Operating income (loss) before changes in working capital	**(9,107,479)**	17,714,373
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Short-term investments	**–**	6,588,729
Insurance receivables - net	**(48,724,813)**	(36,230,269)
Loans and receivables - net	**(12,804,726)**	73,745,746
Deferred acquisition costs	**(1,824,471)**	745,545
Reinsurance assets	**10,746,535**	1,633,933
Increase (decrease) in:		
Insurance contract liabilities	**(38,091,203)**	(21,519,358)
Insurance payables	**509,882**	(50,887,338)
Accounts payable and accrued expenses	**18,340,873**	(15,214,287)
Deferred reinsurance commission	**(13,031)**	3,749
Net cash used in operations	**(32,629,497)**	(23,419,177)
Income tax paid	**(2,157,971)**	(1,606,681)
Retirement benefits contribution	**–**	(1,256,171)
Net cash used in operating activities	**(34,787,468)**	(26,282,029)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of available-for-sale financial assets	**17,402,000**	43,307,961
Dividends received	**15,990,667**	19,425,674
Interest received	**9,830,682**	8,663,932
Acquisitions of:		
Available-for-sale financial assets (Note 6)	**(73,086,139)**	(47,277,305)
Property and equipment (Note 9)	**(595,734)**	(249,257)
Increase in other assets	**331,008**	4,312,269
Net cash provided by (used in) investing activities	**(30,127,516)**	28,183,274

(*Forward*)

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from issuance of shares of stock (Note 23)	**₱–**	₱100,000,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(64,914,984)**	101,901,245
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**158,843,950**	56,942,705
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 3)	**₱93,928,966**	₱158,843,950

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Bankers Assurance Corporation (the Company), a wholly owned subsidiary of Malayan Insurance Co., Inc. (MICO), was incorporated in the Philippines to engage in nonlife insurance business dealing with all kinds of insurance such as fire, marine, motorcar, personal accident, miscellaneous casualty, engineering, bonds and aviation, except life insurance.

The Company was incorporated on September 6, 1955. On August 12, 2004, the Board of Directors (BOD) and stockholders approved the amendment of the Articles of Incorporation extending the corporate term for another 50 years from September 6, 2005, which was approved by the Philippine Securities and Exchange Commission (SEC) on October 13, 2006.

The registered office address of the Company is 4th Floor, Yuchengco Tower 1, No. 484 Quintin Paredes St., Binondo, Manila.

The Company's ultimate parent is Pan Malayan Management and Investment Corporation (PMMIC).

The accompanying financial statements were approved and authorized for issue by the BOD of the Company on April 11, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value. The financial statements are measured in Philippine Peso (₱), which is also the Company's functional and presentation 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).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

			As at December 31, 2016
Statements of Financial Position	As previously reported	Effect of adoption	As restated
Reinsurance assets (Note 8)	₱60,131,173	₱1,089,978	₱61,221,151
Insurance contract liabilities (Note 12)	(170,764,413)	(12,795,553)	(183,559,966)
Retained earnings	93,558,373	(11,705,575)	81,852,798

			Year Ended December 31, 2016
Statements of Comprehensive Income			
Gross change in insurance contract liabilities (Note 17)	(₱24,305,367)	₱6,361,292	(₱17,944,075)
Reinsurers' share of gross change in insurance contract liabilities (Note 17)	(1,809,979)	3,629,875	(1,819,896)

			As at January 1, 2016
Statements of Financial Position	As previously reported	Effect of adoption	As restated
Reinsurance assets (Note 8)	₱58,135,231	₱4,719,853	₱62,855,084
Insurance contract liabilities (Note 12)	(198,645,063)	(6,434,261)	(205,079,324)
Retained earnings	44,306,867	(1,714,408)	42,592,459

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2018

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

- PFRS 9, *Financial Instruments*

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

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

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the application of the forthcoming insurance contracts standard on January 1, 2021.

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

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

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

Effective beginning on or after January 1, 2019
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*

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

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

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

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

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

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

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

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

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

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

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 placements and are subject to an insignificant risk of changes in value.

Short-term Investments
These are placements in time deposits and other money market instruments with original maturities of more than three months but less than one year which are not restricted as to use.

Insurance Receivables
Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in statements of income.

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

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: Available-for-sale (AFS) financial

assets and loans and receivables. The Company classifies its financial liabilities as other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Determination of Fair Value
The Company measures financial instrument at fair value at each reporting period.

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

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

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

Fair value hierarchy
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.

'Day 1'difference
Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions on the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1'difference) in the statement of income unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

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

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

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. Interest earned on holding AFS investments are reported as interest income using the effective interest rate.

Dividends earned on holding AFS investments are recognized in the profit or loss when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as 'Revaluation reserve on available-for-sale financial assets' in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized in the statement of income. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as realized gains or losses in the statement of income. Where the Company holds more than one investment in the same security, the cost is determined using the weighted average method.

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

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVPL. This accounting policy relates to the statements of financial position captions: (a) "Cash and Cash Equivalents", (b) "Insurance Receivables - net", (c) "Loans and receivables - net" and (d) "Accrued Income".

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

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

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

This accounting policy applies primarily to the statements of financial position that captions: (a) “Insurance Payables”, (b) “Accounts Payables and Accrued Expenses” and (c) “Other Liabilities” that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit liability and income tax payable).

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right to offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Impairment of Financial Assets
The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

Loans and receivables
For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists 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 present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

Derecognition of Financial Assets and Liabilities

Financial assets
A financial asset (or where applicable a part of financial asset or a part of a group of financial asset) is derecognized when:

a. the right to receive cash flows from the asset have expired;
b. 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;
c. the Company has transferred its right to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or 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 or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

Reinsurance
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies for its share on the unpaid losses incurred by the Company. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. Reinsurance recoverable on paid losses are included as part of "Insurance receivables".

Reinsurance assets are reviewed for impairment at each end of the 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 recorded 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 profit or loss 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.

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

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract. Amortization is charged against the statements of income. The unamortized acquisition costs are shown as DAC in the assets section of the statements of financial position.

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

Property and Equipment
All property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, nonrefundable taxes and 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 to the statements of income during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the individually significant components of property and equipment as follows:

	Years
Office furniture, fixtures and equipment	5
Transportation equipment	5

Leasehold improvements are amortized over the estimated useful lives of the improvements or the terms of the lease, whichever is shorter.

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statements of income in the year the asset is derecognized.

Value-added Tax (VAT)
The input value added 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 accrued expenses" 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.

Impairment of Nonfinancial Assets
The Company assesses at each reporting date whether there is an indication that property and equipment and 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 (CGU's) fair value less costs to sell and its value in use and is determined for an individual asset or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statements of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation 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 commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as provision for unearned premiums as part of insurance contract liabilities and presented in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to profit or loss in order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

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

The new valuation method was adopted in 2017, accordingly, financial statements previously issued have been restated to recognize the effects of the change.

<u>Insurance Payables</u>
Insurance payables are recognized when due and measured on initial recognition at the fair value of the consideration received less attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

Insurance payables are derecognized when the obligation under the liability is settled, cancelled or expired.

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

Capital Stock
Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Capital in Excess of Par Value
Capital in excess of par value includes any premiums received in excess of par value on the issuance of capital stock.

Retained earnings
Retained earnings include all the accumulated earnings of the Company, net of dividends declared.

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

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

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as Provision for unearned premiums as part of Insurance contract liabilities and presented in the liabilities section of the statement of financial position. The related reinsurance premiums ceded that pertains to the unexpired periods at the end of reporting period are accounted for as Deferred reinsurance premiums and shown as part of Reinsurance assets in the statement of financial position. The net changes in these accounts between the ends of reporting periods are recognized in the statements of income.

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

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

Interest income
Interest income is recognized in the statements 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 rate method.

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

General expenses
General expenses and other underwriting expenses, except for lease agreements, are recognized as expense when incurred.

Commission Expense
Commissions are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as "Deferred acquisition cost" in the assets section of the statement of financial position.

Other underwriting expense
Other underwriting expense pertains to the costs incurred by the Parent Company prior to the issuance of policies to its policyholders. These costs include expenses for technical inspections, actuarial reviews and other work that is deemed necessary to determine whether or not to accept the risks to be written. These costs are recognized as expense as they are incurred.

Foreign Currency-Denominated Transactions and Translation
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 reporting period. Differences arising from translation of monetary assets and liabilities are taken to the statements of income.

Provisions and Contingencies

Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Income Tax

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted at the end of reporting period.

Deferred tax

Deferred tax is provided using liability method on all temporary differences at the end of 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. Deferred tax assets are recognized for all deductible temporary differences, carry forward benefit of the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each end of reporting period and is 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 assets to be utilized. Unrecognized deferred income tax assets are reassessed at each end of reporting period and are recognized to the extent that it has become probable that future taxable profit will allow all or part of the deferred tax assets to be recovered.

Current tax and deferred tax relating to items recognized directly in the statements of comprehensive income are likewise recognized in the statements of income.

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 reporting period. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to income for the period.

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statements of 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.

Events after the End of the Reporting Period
Post year-end events that provide additional information about the Company's position at the end of the reporting period (adjusting events) are reflected in the financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Company to make judgments and estimates that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results would differ from such estimates.

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

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

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

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

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

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

The carrying value of provisions for claims reported and loss adjustment expenses and IBNR amounted to ₱77.79 million and ₱121.82 million as of December 31, 2017 and 2016, respectively (Note 12).

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

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

As of December 31, 2017 and 2016, the carrying value of the Company's AFS financial assets amounted to ₱711.47 million and ₱523.05 million, respectively (Note 6).

Estimating pension obligation and other retirement benefits
The determination of pension assets or obligations and cost of pension is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates.

Due to the long-term nature of this plan, such estimates are subject to significant uncertainty.

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

The carrying value of net pension obligation amounted to ₱4.45 million and ₱4.81 million as of December 31, 2017 and 2016, respectively (Note 10).

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash fund	**₱291,800**	₱24,211
Cash in banks (Note 21)	**33,418,993**	18,815,054
Cash equivalents (Note 21)	**60,218,173**	140,004,685
	₱93,928,966	₱158,843,950

Cash in banks earns interest corresponding to the banks' deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earned interest at the respective short-term deposit rates ranging from 0.125% to 2.0% in 2017 and 0.02% to 2.0% 2016.

Interest income earned from cash in banks and cash equivalents amounted to ₱1.55 million and ₱0.72 million in 2017 and 2016, respectively (Note 16).

5. **Insurance Receivables - net**

This account consists of:

	2017	2016
Premiums receivable	**₱94,769,885**	₱66,907,087
Due from ceding companies	**–**	28,995,734
Reinsurance recoverable on paid losses	**49,428,915**	–
Funds held by ceding companies	**7,668,678**	7,239,844
	151,867,478	103,142,665
Less allowance for impairment loss	**9,712,933**	9,712,933
	₱142,154,545	₱93,429,732

Premiums receivable represent premiums on written policies which are collectible within the Company's allowed payment period which is 90 days.

Due from ceding companies pertains to premiums collectible resulting from treaty acceptances from ceding companies.

Reinsurance recoverable on paid losses pertains to amounts recoverable from the reinsurers in respect of claims already paid by the parent.

Funds held by ceding companies pertain to the portion of the premium withheld by the ceding companies in accordance with the treaty agreement.

As of December 31, 2017 and 2016, insurance receivables with a carrying value of ₱9.71 million, which are specifically identified as impaired, were fully provided with allowance for impairment loss.

The following table shows aging information of insurance receivables:

	2017				
	Less than 30 days	**30 to 60 days**	**61 to 120 days**	**More than 120 days**	**Total**
Premiums receivable	**₱6,417,660**	**₱5,639,172**	**₱8,184,251**	**₱74,528,802**	**₱94,769,885**
Funds held by ceding companies	**–**	**51,830**	**100,000**	**7,516,848**	**7,668,678**
Reinsurance recoverable on paid losses	**–**	**–**	**49,428,915**	**–**	**49,428,915**
	₱6,417,660	**₱5,691,002**	**₱57,713,166**	**₱82,045,650**	**₱151,867,478**

	2016				
	Less than 30 days	30 to 60 days	61 to 120 days	More than 120 days	Total
Premiums receivable	₱4,286,112	₱3,714,663	₱5,432,754	₱53,473,558	₱66,907,087
Due from ceding companies	296,854	313,892	1,013,435	27,371,553	28,995,734
Funds held by ceding companies	4,590	–	11,078	7,224,176	7,239,844
	₱4,587,556	₱4,028,555	₱6,457,267	₱88,069,287	₱103,142,665

The breakdown of allowance for impairment losses on insurance receivables as of December 31, 2017 and 2016 follows:

	Premiums Receivable	**Due from Ceding Companies**	**Funds held by Ceding Companies**	**Total**
As of December 31, 2017 and 2016	**₱7,991,154**	**₱–**	**₱1,721,779**	**₱9,712,933**

No impairment loss for year 2017 and 2016.

6. **Financial Assets**

This account is summarized by measurement categories as follows:

	2017	2016
AFS financial assets	**₱711,474,761**	₱523,048,212
Loans and receivables – net	**33,782,401**	20,977,675
	₱745,257,162	₱544,025,887

The assets included in each of the categories above are detailed below.

a) *AFS financial assets*

This account consists of:

	2017	2016
Quoted securities – at fair value		
Listed equity securities – common shares	**₱523,718,130**	₱388,203,712
Government debt securities – local currency	**134,774,428**	64,547,743
Private debt securities	**45,799,741**	63,114,295
	704,292,299	515,865,750
Non-quoted securities – at cost		
Unlisted equity securities – common shares	**7,182,462**	7,182,462
	₱711,474,761	₱ 523,048,212

In accordance with the provisions of the Insurance Code (the Code), government securities with face value totaling ₱137.85 million and ₱63.92 million as of December 31, 2017 and 2016, respectively, are deposited with the Insurance Commission (IC) as security for the benefit of policyholders and creditors of the Company.

As of December 31, 2017 and 2016, the revaluation reserve on AFS financial assets amounted to ₱382.99 million and ₱249.84 million, respectively.

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

	2017	2016
Balance at beginning of year	**₱523,048,212**	₱603,282,873
Acquisitions	**73,086,139**	47,277,305
Unrealized foreign exchange gains	**199,131**	4,408,020
Fair value gains and losses	**133,152,449**	(87,897,005)
Realized gain transferred to profit or loss (Note 16)	**–**	(68,717)
Disposal and maturities	**(17,402,000)**	(43,239,244)
Premium amortization – net	**(609,170)**	(715,020)
	₱711,474,761	₱523,048,212

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

	2017	2016
Balance at beginning of year	**₱249,836,765**	₱337,802,487
Fair value gains and losses	**133,152,449**	(87,897,005)
Realized gain transferred to profit or loss (Note 16)	**–**	(68,717)
	₱382,989,214	₱249,836,765

The maturity profile of investments in debt securities, both government and private, follows:

	2017	2016
Due after one year through five years	**₱66,401,041**	₱74,289,080
Due after five years through ten years	**114,173,127**	53,372,958
	₱180,574,168	₱127,662,038

In 2017 and 2016, dividend income earned by the Company from its investments amounted to ₱15.99 million and ₱19.43 million, respectively (Note 16).

Total interest income earned by the Company from its AFS investments amounted to ₱6.81 million and ₱5.93 million in 2017 and 2016, respectively (Note 16).

b) *Loans and receivables - net*

This account consists of:

	2017	2016
Long-term commercial papers	**₱32,750,000**	₱20,000,000
Notes receivable	**856,512**	1,090,280
Accounts receivable (Note 21)	**80,551**	391,431
Security fund	**95,338**	95,338
	33,782,401	21,577,049
Less allowance for doubtful accounts	**–**	599,374
	₱33,782,401	₱20,977,675

Annual interest rates for long-term commercial papers ranged from 4.51% to 6.80% in 2017 and 2016, while fixed annual interest rate for notes receivables is 8% in 2017 and 2016.

Interest income earned from long-term commercial papers amounted to ₱1.62 million in 2017 and ₱1.19 million 2016 while interest income earned from notes receivable amounted to ₱0.06 million and ₱0.07 million in 2017 and 2016, respectively (Note 16).

Accounts receivable includes employee advances for SSS and telephone charges.

The specifically impaired notes receivable with a carrying value of ₱0.60 million as of December 31, 2016 was written off in 2017.

7. Deferred Acquisition Costs - net

The details of deferred acquisition costs net of deferred reinsurance commissions follow:

	2017	2016
Deferred acquisition costs		
Balance at beginning of year	**₱19,390,025**	₱20,135,570
Cost deferred during the year	**28,099,082**	23,672,200
Amortization during the year	**(26,274,611)**	(24,417,745)
Balance at end of year	**21,214,496**	19,390,025
Deferred reinsurance commission		
Balance at beginning of year	**13,031**	9,282
Income deferred during the year	**5,276**	29,244
Amortization during the year	**(18,307)**	(25,495)
Balance at end of year	–	13,031
	₱21,214,496	₱19,376,994

8. Reinsurance Assets

This account consists of:

	2017	2016
Reinsurance recoverable on unpaid losses (Note 12)	**₱1,045,701**	₱60,804,644
Deferred reinsurance premiums (Note 12)	–	416,507
	₱1,045,701	₱61,221,151

Reinsurance recoverable on unpaid losses represent reinsurers' share on the losses or claims that are yet to be settled by the Company.

Deferred reinsurance premiums are portions of the ceded premiums that relate to the unexpired periods of the policies as of the reporting date.

9. Property and Equipment- net

The rollforward analysis of this account follows:

	2017			
	Office Furniture, Fixtures and Equipment	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Cost				
Balance at beginning of year	**₱27,291,131**	**₱1,901,233**	**₱693,510**	**₱29,885,874**
Additions	**162,412**	**433,322**	**–**	**595,734**
Balance at end of year	**27,453,543**	**2,334,555**	**693,510**	**30,481,608**
Accumulated Depreciation				
Balance at beginning of year	**23,561,414**	**1,489,158**	**636,692**	**25,687,264**
Depreciation (Note 18)	**3,212,929**	**205,845**	**14,824**	**3,433,598**
Balance at end of year	**26,774,343**	**1,695,003**	**651,516**	**29,120,862**
Net Book Value	**₱679,200**	**₱639,552**	**₱41,994**	**₱1,360,746**

	2016			
	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost				
Balance at beginning of year	₱27,041,874	₱1,901,233	₱693,510	₱29,636,617
Additions	249,257	–	–	249,257
	27,291,131	1,901,233	693,510	29,885,874
Accumulated Depreciation				
Balance at beginning of year	19,414,996	1,261,877	615,971	21,292,844
Depreciation (Note 18)	4,146,418	227,281	20,721	4,394,420
Balance at end of year	23,561,414	1,489,158	636,692	25,687,264
Net Book Value	₱3,729,717	₱412,075	₱56,818	₱4,198,610

The depreciation expense charged against operations amounted to ₱3.43 million and ₱4.39 million in 2017 and 2016, respectively (Note 18).

10. Net Pension Obligation

The Company has a defined benefit retirement plan covering all employees, which requires contributions to be made to a separately administered retirement fund.

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

Net pension benefit expense (Note 18)

	2017	2016
Current service cost	**₱1,083,659**	₱904,102
Net interest cost	**249,732**	157,599
	₱1,333,391	₱1,061,701

Remeasurement effects to be recognized in OCI

	2017	2016
Actuarial gain (loss) on defined benefit obligation	**(₱1,483,768)**	(₱1,517,468)
Remeasurement loss on plan assets	**(212,803)**	(380,344)
	(₱1,696,571)	(₱1,897,812)

Net pension obligation

	2017	2016
Present value of defined benefit obligation	**₱7,659,070**	₱7,661,545
Fair value of plan assets	**(3,210,449)**	(2,849,744)
	₱4,448,621	₱4,811,801

Movements in net pension obligation recognized in the statements of financial position follow:

	2017	2016
Balance at beginning of year	**₱4,811,801**	₱3,108,459
Amount to be recognized in profit or loss	**1,333,391**	1,061,701
Amount to be recognized in OCI	**(1,696,571)**	1,897,812
Contributions	–	(1,256,171)
Balance at end of year	**₱4,448,621**	₱4,811,801

Movements in the present value of pension benefit obligation follow:

	2017	2016
Balance at beginning of year	**₱7,661,545**	₱7,367,042
Current service cost	**1,083,659**	904,102
Interest cost	**397,634**	373,509
Actuarial loss (gain) on obligation	**(1,483,768)**	1,517,468
Benefits paid	–	(2,500,576)
Balance at end of year	**₱7,659,070**	₱7,661,545

Movements in the fair value of the plan assets follow:

	2017	2016
Balance at beginning of year	**₱2,849,744**	₱4,258,583
Interest income	**147,902**	215,910
Contributions	–	1,256,171
Benefits paid	–	(2,500,576)
Remeasurement loss	**212,803**	(380,344)
Balance at end of year	**₱3,210,449**	₱2,849,744
Actual return on plan assets	**₱360,705**	(₱164,434)

The Company expects to contribute ₱1.42 million to its plan assets in 2018.

The distribution of the plan assets follows:

	2017	2016
Investments in other securities and debt instruments	**₱1,850,967**	₱1,753,866
Investments in common stocks	**1,359,745**	1,097,293
Receivables	**9,851**	11,338
	3,220,563	2,862,497
Accrued trust fees and other payables	**(10,114)**	(12,753)
	₱3,210,449	₱2,849,744

The principal actuarial assumptions used for the Company's plan follow:

	2017	2016
Discount rate	**5.64%**	5.19%
Salary increase rate	**5.00%**	5.00%

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

2017

	Change in variables	**Impact on present value of defined benefit obligation Increase (Decrease)**	**Percentage change**
Discount rate	**+0.50%**	**(₱197,036)**	**(5.69%)**
	-0.50%	**214,861**	**4.69%**
Salary increase rate	**+1.00%**	**₱436,615**	**5.00%**
	-1.00%	**(364,173)**	**(5.00%)**

2016

	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)	Percentage change
Discount rate	+0.50%	(₱259,549)	(5.69%)
	-0.50%	289,502	4.69%
Salary increase rate	+1.00%	₱586,869	5.00%
	-1.00%	(482,200)	(5.00%)

The average future working years of service is 22.

The maturity analysis of the undiscounted benefit payments as of December 31, 2017 and 2016 based on normal retirements (retirement age of 60 only) are as follows:

Date of Retirement	2017	2016
More than 5 years to 10 years	**₱3,062,723**	₱5,295,832
More than 10 years to 15 years	**–**	–
More than 15 years to 20 years	**34,913,287**	38,841,495
More than 20 years	**89,277,025**	101,716,131

11. Other Assets

This account consists of:

	2017	2016
Input value added tax (VAT)	**₱9,079,357**	₱9,051,964
Prepayments	**1,197,156**	1,170,343
Documentary stamps inventory	**164,708**	522,294
Deferred input VAT	**435,228**	423,012
Refundable deposits	**241,047**	235,891
Other investments	**880,000**	925,000
	₱11,997,496	₱12,328,504

Input value added 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. These are recoverable in future periods.

Prepayments include advances made by the Company on rent, repairs, telephone subscriptions annual software maintenance fee, and membership in associations.

Other investments pertain to investments in memorial lots.

12. Insurance Contract Liabilities and Reinsurance Assets

Short-term nonlife insurance contract liabilities net of reinsurers' share of liabilities may be analyzed as follows:

	2017			2016 (As restated – Note 2)		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net
Provision for claims reported and loss adjustment expenses	**₱64,990,545**	**₱494,223**	**₱64,496,322**	₱107,117,334	₱59,714,666	₱47,402,668
Provision for IBNR claims	**12,788,198**	**551,478**	**12,236,720**	1,905,766	–	1,905,766
Change in estimate	**–**	**–**	**–**	12,795,553	1,089,978	11,705,575
	77,778,743	**1,045,701**	**76,733,042**	121,818,653	60,804,644	61,014,009
Provision for unearned premiums	**66,600,041**	**–**	**66,600,041**	61,741,313	416,507	61,324,806
Total insurance contract liabilities	**₱144,378,784**	**₱1,045,701**	**₱143,333,083**	₱183,559,966	₱61,221,151	₱122,338,815

Provisions for claims reported and loss adjustment expenses may be analyzed as follows:

	2017			2016 (As restated – Note 2)		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net
Balance at beginning of year	**₱121,818,653**	**₱60,804,644**	**₱61,014,009**	₱139,762,727	₱62,624,539	₱77,138,188
Claims incurred during the year	**(1,619,178)**	**(27,530,209)**	**25,911,031**	70,059,444	75,464,408	(5,404,964)
Increase in IBNR (Note 22)	**1,643,508**	**–**	**1,643,508**	–	–	–
Change in estimate	**–**	**–**	**–**	6,361,292	(3,629,875)	9,991,167
Total claims reported and claims IBNR	**121,842,983**	**33,274,435**	**88,568,548**	216,183,463	134,459,072	81,724,391
Claims paid during the year (Note 17)	**(44,064,240)**	**(32,228,734)**	**(11,835,506)**	(94,364,811)	(73,654,429)	(20,710,382)
Balance at end of year	**₱77,778,743**	**₱1,045,701**	**₱76,733,042**	₱121,818,652	₱60,804,643	₱61,014,009

Provision for unearned premiums may be analyzed as follows:

	2017			2016		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net
Balance at beginning of year	**₱61,741,313**	**₱416,507**	**₱61,324,806**	₱65,316,597	₱230,545	₱65,086,052
New policies written during the year (Note 15)	**87,994,127**	**2,203,244**	**85,790,883**	78,100,893	(3,865,001)	81,965,894
Premiums earned during the year (Note 15)	**(83,135,399)**	**(2,619,751)**	**(80,515,648)**	(81,676,177)	4,050,963	(85,727,140)
Balance at end of year	**₱66,600,041**	**₱–**	**₱66,600,041**	₱61,741,313	₱416,507	₱61,324,806

13. Insurance Payables

This account consists of:

	2017	2016
Premium due to reinsurers	**₱1,039,939**	₱1,089,853
Funds held for reinsurers	**1,452,189**	892,393
	₱2,492,128	₱1,982,246

The rollforward analysis of insurance payables follows:

	Premium due to reinsurers	**Funds held for reinsurers**	**Total**
At January 1, 2016	₱52,407,660	₱461,924	₱52,869,584
Additions/Utilizations	(51,317,807)	430,469	(50,887,338)
At December 31, 2016	1,089,853	892,393	1,982,246
Additions/Utilizations	**(49,914)**	**559,796**	**509,882**
At December 31, 2017	**₱1,039,939**	**₱1,452,189**	**₱2,492,128**

14. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016
Commissions payable	**₱20,554,852**	₱15,103,929
Accounts payable	**13,945,454**	4,547,581
Withholding taxes	**3,407,503**	2,613,079
Accrued expenses	**4,022,960**	1,373,239
Others	**820,813**	772,881
	₱42,751,582	₱24,410,709

Commissions payable are unpaid commissions on the Company's direct business, payable to agents and brokers which are due upon collection of the related premiums receivables.

Accounts payable includes premium payments from migrant policy holders for the life insurance premiums. These are non-interest bearing and are generally due over a short-term period.

Withholding taxes refer to expanded withholding tax and deferred withholding taxes.

Others pertain to documentary stamps payable, notarial and policy fees, deferred income, local government taxes, survey and certification fees.

15. Net Premiums Earned

The details of gross premiums earned net of reinsurers' share follow:

	2017	2016
Gross premiums written		
Direct	**₱65,669,969**	₱54,738,488
Assumed	**22,324,158**	23,362,405
Total gross premiums (Note 12)	**87,994,127**	78,100,893
Gross change in provision for unearned premiums	**(4,858,728)**	3,575,284
Gross premiums earned (Note 12)	**83,135,399**	81,676,177
Reinsurers' share of gross premiums written (Note 12)	**2,203,244**	(3,865,001)
Reinsurers' share of change in provision for unearned premiums	**416,507**	(185,962)
Reinsurers' share of gross premiums (Note 12)	**2,619,751**	(4,050,963)
	₱80,515,648	₱85,727,140

16. Investment and Other Income - net

Investment and other income - net consist of:

	2017	2016
Dividend income (Note 6)	**₱15,990,667**	₱19,425,674
Interest income:		
AFS financial assets (Note 6)	**6,810,857**	5,934,231
Long-term commercial papers (Note 6)	**1,622,632**	1,188,737
Cash and cash equivalents (Note 4)	**1,552,282**	721,075
Notes receivable (Note 6)	**62,522**	69,968
Foreign exchange gain – net	**644,543**	6,527,268
Gain on sale of AFS financial assets (Note 6)	–	68,717
Others – net	**32,654**	25,505
	₱26,716,157	₱33,961,175

The unrealized foreign exchange gain from restatement of investments and receivables in dollar denominated currency for the years ended December 31, 2017 and 2016 amounted to ₱0.59 million and ₱6.41 million, respectively.

17. Net Insurance Benefits and Claims Paid

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

	2017	2016
Insurance contracts benefits and claims paid:		
Direct	**₱23,494,124**	₱90,888,944
Assumed	**20,570,116**	3,475,867
Total insurance contract benefits and claims paid (Note 12)	**₱44,064,240**	₱94,364,811

Reinsurers' share of gross insurance contract benefits and claims paid amounted to ₱32.23 million and ₱73.65 million in 2017 and 2016, respectively.

Gross change in insurance contract benefits and claims liabilities consist of the following:

	2017	2016
Change in provision for claims reported:		
Direct insurance	**(₱29,699,749)**	₱6,428,935
Assumed reinsurance	**(14,340,161)**	(24,373,010)
Total gross change in insurance contract benefit and claims liabilities	**(₱44,039,910)**	(₱17,944,075)

Reinsurers' share of gross change in insurance contract benefits and claims liabilities for the years ended December 31, 2017 and 2016 amounted to ₱59.76 million and ₱1.82 million, respectively.

18. **General Expenses**

This account consists of:

	2017	2016
Salaries, wages and allowances	**₱8,796,262**	₱9,026,658
Depreciation (Note 9)	**3,433,598**	4,394,420
Taxes, licenses and fees	**2,630,768**	1,331,320
Employee benefits	**3,141,091**	3,176,908
Repairs and maintenance	**3,207,162**	2,654,590
Postage, telephone and cable	**2,124,131**	2,053,662
Professional fees	**1,689,564**	1,726,534
Rent, light and water	**1,647,737**	1,317,811
Transportation and travel	**1,072,117**	1,257,188
Office supplies	**2,020,399**	1,217,147
Net pension expense (Note 10)	**1,333,391**	1,061,701
Entertainment, amusement and recreation	**809,572**	1,027,678
Advertising and promotions	**400,297**	556,929
Others	**3,892,702**	3,150,964
	₱36,198,791	₱33,953,510

19. **Income Tax**

The provision for (benefit from) income tax consists of:

	2017	2016
Current	**₱752,163**	₱717,227
Final	**1,546,520**	1,170,583
Deferred	**(2,647,012)**	2,211,505
	(₱348,329)	₱4,099,315

The components of the recognized deferred tax assets and liabilities follow:

	2017	2016
Deferred tax assets through profit or loss:		
Net operating loss carryover (NOLCO)	**₱–**	₱6,586,589
Net pension obligation	**1,607,983**	1,207,966
Minimum corporate income tax (MCIT)	**–**	1,006,558
Provision for bad debts	**946,882**	946,882
Deferred reinsurance commission	**–**	3,909
	2,554,865	9,751,904
Deferred tax assets through OCI:		
Remeasurements on pension	**221,996**	730,967
Total deferred tax assets	**2,776,861**	10,482,871
Deferred tax liabilities:		
Deferred acquisition costs	**–**	5,817,008
Net unrealized foreign exchange gain	**358,929**	3,639,270

(Forward)

	2017	2016
Excess of reserve for unearned premiums per tax over books basis	**₱–**	₱621,750
Excess of tax basis over deferred reinsurance premiums per books	–	124,952
Total deferred tax liabilities	**358,929**	10,202,980
Deferred tax assets – net	**₱2,417,932**	₱279,891

The Company did not recognize deferred tax assets on the following deductible temporary differences:

	2017	2016
NOLCO	**₱3,931,013**	₱17,580,050
Allowance for doubtful accounts	**7,156,034**	7,156,034
Provision for IBNR claims	**457,900**	1,905,776
MCIT	**1,758,721**	–

The related deferred tax assets on these temporary differences amounted to ₱5.22 million and ₱7.99 million as of December 31, 2017 and 2016, respectively. Deferred tax assets are recognized only to the extent that taxable income will be available against which the deferred tax assets can be used. The Company will reassess unrecognized deferred tax assets on the above deductible temporary differences and will recognize previously unrecognized deferred tax assets to the extent that it has become probable that future taxable income would allow the deferred tax asset to be recovered.

As of December 31, 2017, details of the NOLCO, which are available for offset against future taxable income and future income tax liability, respectively, follows:

Inception Year	NOLCO	Application	Expired	Outstanding	Expiry Year
2017	₱3,931,013	₱–	₱–	₱3,931,013	2020
2014	39,535,347	–	39,535,347	–	2017
	₱43,466,360	₱–	₱39,535,347	₱3,931,013	

Details of MCIT follow:

Inception Year	MCIT	Application/Expired	Outstanding	Expiry Year
2017	₱752,163	₱–	₱752,163	2020
2016	717,227	–	717,227	2019
2015	289,331	–	289,331	2018
	₱1,758,721	₱–	₱1,758,721	

The reconciliation of provision for income tax computed at the statutory corporate income tax rate to provision for income tax shown in the statements of income follows:

	2017	2016
Income tax at statutory income tax rate	**₱3,526,336**	₱16,005,246
Add (deduct) the tax effects of:		
Provision for impairment loss	–	–
Nontaxable gain on sale of AFS financial assets	**(18,757)**	(20,615)
Interest income exempt or subjected to final tax	**(1,546,519)**	(1,182,630)
Dividend income	**(4,797,200)**	(5,827,702)
Change in unrecognized deferred tax assets	**2,487,811**	(4,874,984)
Provision for (benefit from) income tax	**(₱348,329)**	₱4,099,315

20. Contingencies

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results of operations and financial position.

21. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The Company, in its regular conduct of business, engages in transactions with related parties.

The table below shows the summary of significant transactions with related parties:

	2017		2016			
Category	**Amount / Volume**	**Outstanding Receivable (Payable)**	Amount / Volume	Outstanding Receivable (Payable)	Terms	Conditions
Parent						
MICO						
Premium ceded	**₱–**	**₱–**	₱482,541	₱–	Non-interest bearing; on demand	Unsecured; no impairment
Commission income	–	–	12,064	–	Non-interest bearing; on demand	Unsecured; no impairment
Shared expenses (Note 18)	**5,976,753**	**3,849,744**	1,809,152	123,739	Non-interest bearing; on demand	Unsecured; no impairment
(*Forward*)						
Other related parties - Entities under common control						
a. MIIC						
Reinsurers' share of gross premiums	**₱29,525**	**₱182,803**	₱116,897	₱120,531	Non-interest bearing; on demand	Unsecured
b. House of Investments (HI)						
AFS financial assets-equity securities (Note 6)	–	**23,183,271**	–	17,481,951	–	Unsecured; no impairment
c. Rizal Commercial Banking Corporation						
Cash in bank	–	**20,970,257**	–	14,517,132	Interest at 0.125% - 2.50% p.a.	Unsecured
Short-term deposits	**264,353,303**	**59,199,745**	122,911,044	138,997,292	6 to 30-day term; interest at .125% - 2.50% p.a.	Unsecured; no impairment
AFS financial assets - equity securities	–	**235,977,696**	146,947,253	143,036,164	–	Unsecured; no impairment
Private debt securities	–	**25,269,823**	–	42,476,815	Maturing in 2021, interest rate at 3.45% to 5.25%	Unsecured; no impairment
Interest income						
Cash in bank	**9,643**	**₱9,643**	₱8,957	₱8,957	Interest at 0.125% - 2.50% p.a.	Unsecured
Private debt securities	**1,329,767**	**947,154**	1,691,070	1,716,836	Interest at 3.45% - 5.25% p.a.	Unsecured; no impairment

The outstanding receivables and payables are to be settled in cash.

The Company is a wholly-owned subsidiary of MICO. The parent company of MICO is MICO Equities, Inc. (MEI). MIIC is a subsidiary of MEI. MEI, RCBC, HI and iPeople are subsidiaries of PMMIC, the holding company of Yuchengco Group of Companies.

Key management personnel of the Company include senior management. The total short-term employee benefits of the Company's key management personnel amounted to ₱0.22 million and ₱0.19 million in 2017 and in 2016, respectively. As of December 31, 2017 and 2016, the total long-term employee benefits of the Company's key management personnel amounted to ₱4.936 million and ₱4.2 million, respectively.

Terms and Conditions of transactions with related parties
Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party payables or receivables. The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2017 and 2016. This assessment is undertaken each financial year through review of the financial position of the related party and the market in which the related party operates.

22. Equity

Capital Stock
This account consists of:

The details of the number of shares as of December 31, 2017 and 2016 follow:

	2017		2016	
	Shares	**Amount**	Shares	Amount
Common stock - ₱10 par value				
Authorized	**40,000,000**	**₱400,000,000**	40,000,000	₱400,000,000
Issued and outstanding				
At beginning of year	**35,000,000**	**350,000,000**	25,000,000	250,000,000
Issuances during the year	–	–	10,000,000	100,000,000
At end of the year	**35,000,000**	**₱350,000,000**	35,000,000	₱350,000,000

On September 23, 2016, the Corporation approved the issuance of 10 million shares of stock worth ₱100.00 million at ₱10.00 par value from the unissued portion of the Corporation's capital stock in favor of stockholders of record as of September 23, 2016.

23. Management of Capital, Insurance and Financial Risks

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

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

Capital Management and Regulatory Requirements
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 usually higher than the minimum capital requirements set by the regulators and the amount computed under the Risk-based Capital (RBC) Model.

The IC capital requirements are fixed capitalization requirements, RBC requirements, and unimpaired capital requirement.

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

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

On August 15, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the "New Insurance Code" which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022.

The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

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

On January 13, 2015, the IC issued the Circular Letter (CL) No. 2015-02-A which provides for the clarification of minimum capital requirements under Sections 194, 197, 200 and 289 of the New Insurance Code. The said circular supersedes the Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008.

The minimum networth requirement must remain unimpaired for the continuance of the license.

As of December 31, 2017 and 2016, the Company's estimated statutory networth amounted to ₱741.40 million and ₱600.85 million, respectively.

Risk-based Capital Requirements
Insurance Memorandum Circular (IMC) No. 7-2006 adopted the RBC framework for the nonlife insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every nonlife insurance company is annually required to maintain a minimum required RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the nonlife insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part only to the extent authorized by the IC.

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

Under Section D of IMC No. 7-2006, Mandatory Control Event shall occur if the RBC ratio of the company is less than 35%. Should this event occur, the Commissioner is required to place the company under regulatory control under Sec.247 (Title 13, Suspension or Revocation of Authority) of the Code. The Mandatory Control Event shall be deemed sufficient grounds for the Commissioner to take action under Sec. 247 of the Insurance Code.

The final amount of the RBC ratio can only be determined after the accounts of the Company have been examined by the IC. Further, the IC has yet to finalize the new RBC Computation under the New Insurance Code.

Pursuant to Section 194 of the Amended Insurance Code (R.A. 10607), the Insurance Commission conducted a review of the current Risk-based Capital (RBC) Framework contained in Insurance Memorandum Circulars Numbered 6-2006 and 7-2006 both dated October 5, 2006. On June 10, 2015, the Insurance Commission issued Circular Letter No. 2015-30 requiring all non-life insurance to participate in parallel runs for the RBC 2-QIS (Quantitative Impact Study).

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

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

Circular Letter 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves*, prescribes the new valuation methodology for the non-life insurance companies. Non-life insurance companies will be changing the basis of valuation of their non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The incurred but not reported (IBNR) reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. A margin for adverse deviation is estimated based on standard projection techniques or combination of such techniques, such as but not limited to the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the Policy Liabilities at the 75th percentile level of sufficiency. Discount rates to be used shall be current risk-free rates. The rates shall exactly match the duration of the policy and the currency of the cash flows and shall be prescribed by the Insurance Commission. As a result, the Company changed its valuation methodology and previously issued financial statements have been restated to recognize the effects of the change (Note 2).

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

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

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

<u>Insurance Risk</u>
The risk under insurance contract is the possibility of occurrence of insured event and uncertainty of the amount and timing of resulting claims. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims and actual benefits paid greater than originally estimated.

Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statements of financial position as reinsurance assets.

Although the Company has reinsurance agreements, 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 reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The table below sets out the concentration of the claims liabilities by type of contract (Note 12).

	2017			2016 (as restated)		
	Gross Claims Liabilities	**Reinsurers' Share of Claims Liabilities**	**Net Claims Liabilities**	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Bonds and others	**₱73,677,178**	**₱1,045,701**	**₱72,631,477**	₱118,018,700	₱60,804,644	₱57,214,056
Engineering	**4,101,565**	**–**	**4,101,565**	3,799,953	–	3,799,953
Fire	**–**	**–**	**–**	–	–	–
	₱77,778,743	**₱1,045,701**	**₱76,733,042**	₱121,818,653	₱60,804,644	₱61,014,009

The Company enforces a policy of actively managing and promptly pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company also has limited its exposure level by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's risk appetite as decided by management.

Sensitivities
In insurance, there may be claims filed in the current year that would attach policies issued in the previous years. Other unpredictable circumstances, like legislative uncertainties, make it impossible to quantify claims. Also, due to delays arising between occurrence of claims and their subsequent reporting to and settlement by the Company, the outstanding claim provisions cannot be ascertained with confidence at the end of reporting periods.

The change in the assumptions in determining the ultimate claims liabilities does not have a material effect on the Company's profit or loss as of December 31, 2017 and 2016.

Claims development
The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences are eliminated which results in the 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 when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

The risks vary significantly in relation to the location of the risk insured by the Company, type of risks insured and in respect of commercial and business interruption insurance by industry.

The uncertainty of the Company's ultimate cost of claims is typically resolved within one year.

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

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

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

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

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

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

The table below shows the maximum exposure to credit risk, net of impairment losses.

	2017	2016
AFS Financial Assets		
Quoted securities - at fair value		
Listed equity securities - common shares	**₱523,718,130**	₱388,203,712
Government debt securities - local currency	**134,774,428**	64,547,743
Private debt securities	**45,799,741**	63,114,295
Non-quoted securities - at cost		
Unlisted equity securities - common shares	**7,182,462**	7,182,462
Loans and receivables	**33,782,401**	20,977,675
Cash and cash equivalents	**93,637,166**	158,819,739
Short-term investments	**–**	–
Insurance receivables		
Premiums receivable	**86,778,731**	58,915,933
Due from ceding companies	**–**	28,654,732
Reinsurance recoverable on paid losses	**49,428,915**	–
Funds held by ceding companies	**5,946,899**	5,859,067
Accrued income	**1,868,028**	1,650,417
	₱982,916,901	₱797,925,775

**Cash and cash equivalents exclude cash fund*

The following table provides information regarding the credit risk exposure of the Company by classifying financial assets according to credit ratings of the counterparties:

	2017				
	Neither past due nor impaired				
	High Grade	Medium Grade	Past due but not impaired	Impaired	Total
AFS financial assets					
Quoted securities - at fair value					
Listed equity securities - common shares	**₱523,718,130**	**₱–**	**₱–**	**₱–**	**₱523,718,130**
Government debt securities - local currency	**134,774,428**	**–**	**–**	**–**	**134,774,428**
Private debt securities	**45,799,741**	**–**	**–**	**–**	**45,799,741**
Non-quoted securities - at cost					
Unlisted equity securities - common shares	**–**	**7,182,462**	**–**	**–**	**7,182,462**
Loans and receivables					
Cash and cash equivalents	**93,637,166**	**–**	**–**	**–**	**93,637,166**
Insurance receivables					
Premiums receivable	**16,220,201**	**–**	**70,558,530**	**7,991,154**	**94,769,885**
Reinsurance recoverable on paid losses	**49,428,915**	**–**	**–**	**–**	**49,428,915**
Funds held by ceding companies	**–**	**–**	**5,946,898**	**1,721,779**	**7,668,677**
Accrued income	**1,868,028**	**–**	**–**	**–**	**1,868,028**
Loans and receivables	**95,338**	**33,687,063**	**–**	**–**	**33,782,401**
	₱865,541,947	**₱40,869,525**	**₱76,505,428**	**₱9,712,933**	**₱992,534,494**

**Cash and cash equivalents exclude cash fund*

	2016				
	Neither past due nor impaired				
	High Grade	Medium Grade	Past due but not impaired	Impaired	Total
AFS financial assets					
Quoted securities - at fair value					
Listed equity securities - common shares	₱388,203,712	₱–	₱–	₱–	₱388,203,712
Government debt securities - local currency	64,547,743	–	–	–	64,547,743
Private debt securities	63,114,295	–	–	–	63,114,295
Non-quoted securities - at cost					
Unlisted equity securities - common shares	–	7,182,462	–	–	7,182,462

(Forward)

	2016				
	Neither past due nor impaired				
	High Grade	Medium Grade	Past due but not impaired	Impaired	Total
Loans and receivables					
Cash and cash equivalents	₱158,819,739	₱–	₱–	₱–	₱158,819,739
Insurance receivables					
Premiums receivable	9,988,196	–	48,927,737	7,991,154	66,907,087
Due from ceding companies	1,435,239	–	27,219,493	341,002	28,995,734
Funds held by ceding companies	4,590	–	5,894,477	1,380,777	7,279,844
Accrued income	1,650,417	–	–	–	1,650,417
Loans and receivables	95,338	20,882,337	–	599,374	21,577,049
	₱687,859,269	₱28,064,799	₱82,041,707	₱10,312,307	₱808,278,082

**Cash and cash equivalents exclude cash fund*

The credit quality was determined as follows:

a) *Cash and cash equivalents*
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 loans and receivables*
The Company uses a credit rating concept based on the borrowers and counterparties' overall creditworthiness. High grade is given to borrowers and counterparties which possess strong to very strong capacity to meet its obligations. Medium grade is given to borrowers and counterparties which possess average capacity to meet its obligations. These counterparties are somewhat susceptible to adverse changes in business and economic conditions. Low grade is given to borrowers and counterparties which possess average capacity to meet its obligations. These borrowers and counterparties are more likely to have a significant deterioration of its capacity during adverse business and economic conditions relative to high grade and medium grade.

c) *Debt securities, long-term commercial papers and related accrued income*
These are based on the credit ratings by the international rating agency, S&P, and by Philippine Ratings Services Corporation (PhilRatings), the only domestic credit rating services in the Philippines accredited by Bangko Sentral ng Pilipinas (BSP) and SEC, in cases where an S&P rating is not available. High grade pertains to investments rated by S&P as BBB- and higher, which means that the counterparties have extremely strong to adequate capacity of paying interest and repaying principal, as well as investments in securities issued by the Philippine Government. Medium grade pertains to investments rated as BAA and higher by PhilRatings, as well as investments rated by S&P as BB+ to B- (except Philippine Government Securities). The Company's holdings under this category are rated either BB- by S&P (due to sovereign credit rating ceiling) or AAA by PhilRatings which is defined by PhilRatings to mean that the obligor's capacity to meet its financial commitment on the obligation is extremely strong.

d) *Equity securities*
Listed equity securities are classified as high grade. Unlisted equity securities are classified as medium grade.

The following tables show the aging analysis of financial assets that were past due but not impaired.

	2017			
	<60 days	**61 to 120 days**	**More than 120 days**	**Total Past Due but not Impaired**
Premiums receivable	**₱12,056,832**	**₱8,184,251**	**₱50,317,447**	**₱70,558,530**
Funds held by ceding companies	**51,830**	**100,000**	**5,795,068**	**5,946,898**
	₱12,108,662	**₱8,284,251**	**₱56,112,515**	**₱76,505,428**

	2016			
	<60 days	61 to 120 days	More than 120 days	Total Past Due but not Impaired
Premiums receivable	₱8,000,775	₱5,432,754	₱35,494,208	₱48,927,737
Due from ceding companies	188,942	16,712,335	10,318,216	27,219,493
Funds held by ceding companies	11,078	32,075	5,851,324	5,894,477
	₱8,200,795	₱22,177,164	₱51,663,748	₱82,041,707

Past due but not impaired balances have an aging of more than thirty (30) days but less than one year.

Liquidity risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated. The major liquidity risk confronting the Company is the potential daily calls on its available cash resources in respect of claims arising from insurance contracts.

The maturity profiles of the financial assets and liabilities are shown below.

	2017				
	Up to a year	**1-3 years**	**Over 3 years**	**No term**	**Total**
Cash and cash equivalents	**₱93,928,966**	**₱–**	**₱–**	**₱–**	**₱93,928,966**
Insurance receivables - net	**92,867,838**	**29,358,979**	**19,927,728**	**–**	**142,154,545**
AFS financial assets	**10,194,608**	**15,871,200**	**40,335,233**	**645,073,720**	**711,474,761**
Loans and receivables - net	**1,032,401**	**–**	**32,750,000**	**–**	**33,782,401**
Accrued income	**1,868,028**	**–**	**–**	**–**	**1,868,028**
Reinsurance recoverable on unpaid losses	**130,853**	**4,801**	**910,047**	**–**	**1,045,701**
Total financial assets	**₱200,022,694**	**₱45,234,980**	**₱93,923,008**	**₱645,073,720**	**₱984,254,402**
Insurance contract liabilities	**₱144,378,784**	**₱–**	**₱–**	**₱–**	**₱144,378,784**
Insurance payables	**712,566**	**1,353,836**	**425,726**	**–**	**2,492,128**
Accounts payable, accrued expenses and other liabilities**	**39,344,078**	**–**	**–**	**–**	**39,344,078**
Total financial liabilities	**₱184,435,428**	**₱1,353,836**	**₱425,726**	**₱–**	**₱186,214,990**

**Up to a year are all commitments which are either due within one year or are payable in demand*
***Excluding withholding taxes amounting to ₱3,407,503*

	2016				
	Up to a year	1-3 years	Over 3 years	No term	Total
Cash and cash equivalents	₱158,843,950	₱–	₱–	₱–	₱158,843,950
Insurance receivables – net	93,429,732	–	–	–	93,429,732
AFS financial assets	22,942,074	20,637,479	84,082,484	395,386,175	523,048,212
Loans and receivables - net	977,675	5,000,000	15,000,000	–	20,977,675
Accrued income	1,650,417	–	–	–	1,650,417
Reinsurance recoverable on unpaid losses	59,714,666	–	–	–	59,714,666
Total financial assets	₱337,558,514	₱25,637,479	₱99,082,484	₱395,386,175	₱857,664,652
Insurance contract liabilities	₱183,559,966	₱–	₱–	₱–	₱183,559,966
Insurance payables	1,982,246	–	–	–	1,982,246
Accounts payable, accrued expenses and other liabilities**	21,797,630	–	–	–	21,797,630
Total financial liabilities	₱207,339,842	₱–	₱–	₱–	₱207,339,842

**Up to a year are all commitments which are either due within one year or are payable in demand*
***Excluding withholding taxes amounting to ₱2,613,079*

The Company manages liquidity risk by specifying minimum proportion of funds to meet emergency calls; specifying the sources of funding and the events that would trigger the plan; determining concentration of funding sources; reporting of liquidity risk exposures; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

As of December 31, 2017 and 2016, the Company's insurance contract liabilities, insurance payables and accounts payable and accrued expenses are payable within a year.

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

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, reporting of market risk exposures and breaches; and monitoring compliance with market risk policy and review of market risk policy for pertinence and changing environment.

a. *Currency risk*
The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar.

The Company maintains US Dollar time deposits and invests in US Dollar debt securities.

The following table shows the details of the Company's exposure to currency risk.

	2017		2016	
	US Dollar	**Philippine Peso equivalent**	US Dollar	Philippine Peso equivalent
AFS financial assets				
Private debt securities	**$917,279**	**₱45,799,741**	$1,269,394	₱63,114,295
	$917,279	**₱45,799,741**	$1,269,394	₱63,114,295

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rates, with all other variables held constant, of the Company's profit before tax (due to changes in the foreign exchange rate).

		Impact on income before tax Increase (decrease)	
	Change in rate	**2017**	2016
US Dollar	**+5%**	**₱4,154,670**	₱4,967,248
	–5%	**(4,154,670)**	(4,967,248)

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

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

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

	2017					
	Interest rate	**Within 1 year**	**1 to 2 years**	**2-5 years**	**Over 5 years**	**Total**
Loans and receivables						
Cash and cash equivalents	**0.50% to 2%**	**₱93,637,166**	**₱–**	**₱–**	**₱–**	**₱93,637,166**
Long-term commercial papers	**4.51% to 6.80%**	**–**	**–**	**25,000,000**	**7,750,000**	**32,750,000**
AFS financial assets						
Private debt securities	**3.45% to 7.50%**	**10,194,608**	**10,335,310**	**25,269,823**	**–**	**45,799,741**
Government debt securities - local currency	**3.50% to 6.12%**	**–**	**5,535,889**	**15,065,412**	**114,173,127**	**134,774,428**
Total interest-bearing financial assets		**₱103,831,774**	**₱15,871,199**	**₱65,335,235**	**₱121,923,127**	**₱306,961,335**

**Cash and cash equivalents exclude cash fund*

	2016					
	Interest rate	Within 1 year	1 to 2 years	2-5 years	Over 5 years	Total
Loans and receivables						
Cash and cash equivalents	0.125% - 2.50%	₱158,819,739	₱–	₱–	₱–	₱158,819,739
Long-term commercial papers	4.510% to 6.94%	5,000,000	–	10,000,000	5,000,000	20,000,000
AFS financial assets						
Private debt securities	3.45% to 7.50%	17,430,365	20,637,480	25,046,450	–	63,114,295
Government debt securities - local currency	3.50% to 9.125%	5,511,709	–	59,036,034	–	64,547,743
Total interest-bearing financial assets		₱186,761,813	₱20,637,480	₱94,082,484	₱5,000,000	₱306,481,777

**Cash and cash equivalents exclude cash fund*

The following table demonstrates the sensitivity of fair values of fixed rate AFS financial assets to a reasonably possible change in interest rates, with all other variables held constant, showing the impact on equity.

	Change in basis points	**Impact on Equity**	
		2017	2016
Philippine Peso	+100	**₱9,334,596**	₱4,334,234
US Dollar	+100	**42,371**	49,062
Philippine Peso	–100	**₱10,081,348**	₱4,686,030
US Dollar	–100	**2,432,849**	2,786,352

c. *Equity price risk*

The Company's price risk exposure at year-end relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, AFS equity financial assets. 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 equity (due to changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

The following table shows the equity impact of reasonably possible change of Philippine Stock Exchange Index (PSEi):

	Change in equity prices	Impact on Equity Increase (decrease) 2017	2016
PSEi	+15%	**₱21,770,479**	₱42,786,403
	–15%	**(21,770,479)**	(42,786,403)

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

24. Financial Assets and Liabilities

The table below presents a comparison by category of carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2017 and 2016.

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
AFS financial assets				
Quoted securities - at fair value				
Listed equity securities - common shares	**₱523,718,130**	**₱523,718,130**	₱388,203,712	₱388,203,712
Government debt securities - local currency	**134,774,428**	**134,774,428**	64,547,743	64,547,743
Private debt securities	**45,799,741**	**45,799,741**	63,114,295	63,114,295
Non-quoted securities - at cost				
Unlisted equity securities - common shares	**7,182,462**	**7,182,462**	7,182,462	7,182,462
Other financial assets				
Cash and cash equivalents	**93,928,966**	**93,928,966**	158,843,950	158,843,950
Insurance receivables				
Premiums receivable	**86,778,731**	**86,778,731**	58,915,933	58,915,933
Due from ceding companies	**–**	**–**	28,654,732	28,654,732
Reinsurance recoverable on paid losses	**49,428,915**	**49,428,915**	–	–
Funds held by ceding companies	**5,946,898**	**5,946,898**	5,859,067	5,859,067
Accrued income	**1,868,028**	**1,868,028**	1,650,417	1,650,417
Loans and receivables - net	**33,782,401**	**33,782,401**	20,977,675	20,977,675
Total financial assets	**₱983,208,700**	**₱983,208,700**	₱797,949,986	₱797,949,986
Other financial liabilities				
Accounts payable and accrued expenses	**₱42,751,582**	**₱42,751,582**	₱24,410,709	₱24,410,709
Insurance payables				
Premium due to reinsurers	**1,039,939**	**1,039,939**	1,089,853	1,089,853
Funds held for reinsurers	**1,452,189**	**1,452,189**	892,393	892,393
	₱45,243,710	**₱45,243,710**	₱26,392,955	₱26,392,955

Fair values of financial assets and liabilities are estimated as follows:

Cash and cash equivalents, insurance receivables, short-term loans and receivables, accrued income, insurance payables, accounts payable and accrued expenses – the fair value approximates the carrying amounts due to short term nature of the transactions.

Debt securities – the fair values are generally based on quoted market prices.

Equity securities – the fair values are generally based on quoted market prices. For the unquoted equity securities, these are carried at cost less allowance for impairment losses due to unpredictable nature of future cash flows and the lack of other suitable methods of arriving at a reliable fair value.

Long-term loans and receivables – the fair value long-term loans and receivables is estimated using discounted cash flow technique that makes use of PDEX rates in 2017 and 2016.

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

	2017			
	Quoted prices in active markets Level 1	**Significant observable inputs Level 2**	**Significant unobservable input Level 3**	**Total**
Assets measured at fair value:				
AFS financial assets				
Listed equity securities - common shares	**₱523,718,130**	**₱–**	**₱–**	**₱523,718,130**
Government debt securities - local currency	**134,774,428**	**–**	**–**	**134,774,428**
Private debt securities	**45,799,741**	**–**	**–**	**45,799,741**
	704,292,299	**–**	**–**	**704,292,299**
Assets for which fair values are disclosed:				
Long-term commercial papers	**–**	**32,750,000**	**–**	**32,750,000**
Total financial assets	**₱704,292,299**	**₱32,750,000**	**₱–**	**₱737,042,299**

	2016			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable input Level 3	Total
Assets measured at fair value:				
AFS financial assets				
Listed equity securities - common shares	₱388,203,712	₱–	₱–	₱388,203,712
Government debt securities - local currency	64,547,743	–	–	64,547,743
Private debt securities	63,114,295	–	–	63,114,295
	515,865,750	–	–	515,865,750
Assets for which fair values are disclosed:				
Long-term commercial papers	–	20,000,000	–	20,000,000
Total financial assets	₱515,865,750	₱20,000,000	₱–	₱535,865,750

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which uses inputs which have a significant effect on the recorded fair value that are not based on observable market data

During the reporting period ended December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.