The First Nationwide Assurance Corporation

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's 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
The First Nationwide Assurance Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The First Nationwide Assurance Corporation, which comprise the statements of financial position, as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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 The First Nationwide 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.

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PTR No. 6621321, January 9, 2018, Makati City

April 11, 2018

THE FIRST NATIONWIDE ASSURANCE CORPORATION
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, 27 and 28)	**₱19,264,051**	₱60,243,091	₱26,227,330
Short-term investments (Notes 5, 27 and 28)	**814,433**	814,433	3,649,184
Insurance receivables (Notes 6, 27 and 28)	**136,639,027**	73,197,988	76,875,171
Financial assets (Notes 7, 27 and 28)			
Available-for-sale (AFS) financial assets	**706,748,309**	530,042,221	583,218,715
Loans and receivables	**38,201,659**	85,387,746	55,638,140
Accrued income (Notes 7, 24, 27 and 28)	**5,376,324**	3,470,100	4,405,556
Deferred acquisition costs - net (Note 8)	**11,793,811**	9,818,608	9,014,995
Reinsurance assets (Notes 9 and 14)	**65,531,046**	163,928,770	382,930,126
Property and equipment - net (Note 11)	**16,246,660**	17,930,004	20,642,956
Deferred tax assets - net (Note 23)	**3,790,606**	4,718,831	1,923,394
Other assets (Note 13)	**5,375,377**	5,919,794	4,370,412
	₱1,009,781,303	₱955,471,586	₱1,168,895,979
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Note 14)	**₱205,351,558**	₱289,150,220	₱526,224,352
Insurance payables (Notes 15, 27 and 28)	**16,968,293**	43,595	1,928,314
Accounts payable, accrued expenses and other liabilities (Notes 16, 27 and 28)	**35,951,775**	53,920,526	36,434,110
Deferred reinsurance commission (Note 8)	**3,295,685**	2,010,764	2,015,603
Net pension obligation (Note 12)	**4,910,430**	4,393,200	6,244,677
Income tax payable	**227,686**	1,671,612	–
	266,705,427	351,189,917	572,847,056
Equity			
Capital stock (Note 17)	**250,000,000**	250,000,000	250,000,000
Capital in excess of par value	**112,431**	112,431	112,431
Contributed surplus	**100,000**	100,000	100,000
Revaluation reserve on available-for-sale financial assets (Note 7)	**363,470,906**	241,161,266	281,175,302
Remeasurement loss on pension obligation (Note 12)	**960,002**	(889,110)	(1,500,160)
Retained earnings	**128,432,537**	113,797,082	66,161,350
	743,075,876	604,281,669	596,048,923
	₱1,009,781,303	₱955,471,586	₱1,168,895,979

See accompanying Notes to Financial Statements.

THE FIRST NATIONWIDE ASSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
INCOME		
Gross premiums earned	**₱214,345,215**	₱192,043,793
Reinsurers' share of gross premiums earned	**(35,091,171)**	(22,149,041)
Net premiums earned (Note 19)	**179,254,044**	169,894,752
Investment and other income – net (Note 20)	**26,085,993**	23,200,728
Foreign exchange gain – net	**2,692,476**	332,065
Commission income (Note 8)	**5,095,575**	4,250,943
Total income	**213,128,088**	197,678,488
BENEFITS, CLAIMS AND EXPENSES		
Gross insurance contract benefits and claims paid (Note 21)	**78,860,989**	76,799,715
Reinsurers' share of gross insurance contract benefits and claims paid (Note 21)	**(948,664)**	(17,594,297)
Gross change in insurance contract liabilities (Notes 2 and 21)	**(103,550,698)**	(246,838,659)
Reinsurers' share of gross change in insurance contract liabilities (Notes 2 and 21)	**104,621,766**	219,884,372
Net insurance contract benefits and claims (Notes 2, 14 and 21)	**78,983,393**	32,251,131
General and administrative expenses (Note 22)	**91,144,716**	91,589,651
Other underwriting expenses	**24,441,184**	24,402,707
Commission expense (Note 8)	**1,273,409**	921,684
Total benefits, claims and other expenses	**195,842,702**	149,165,173
INCOME BEFORE INCOME TAX	**17,285,386**	48,513,315
PROVISION FOR INCOME TAX (Note 23)	**2,649,931**	877,583
NET INCOME (Note 26)	**₱14,635,455**	₱47,635,732

See accompanying Notes to Financial Statements.

THE FIRST NATIONWIDE ASSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31	
	2017	2016
NET INCOME	**₱14,635,455**	₱47,635,732
OTHER COMPREHENSIVE INCOME		
Items that will be reclassified to profit or loss in subsequent periods:		
Net change in fair value of available-for-sale financial assets (Note 7)	**122,309,640**	(45,418,658)
Impairment loss transferred to profit and loss (Note 7)	–	5,404,622
	122,309,640	(40,014,036)
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gains on defined benefit obligation, net of tax effect (Note 12)	**1,849,112**	611,050
TOTAL COMPREHENSIVE INCOME	**₱138,794,207**	₱8,232,746

See accompanying Notes to Financial Statements.

THE FIRST NATIONWIDE ASSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

				Other Comprehensive Income			
	Capital Stock (Note 17)	Capital in Excess of Par Value	Contributed Surplus	Revaluation Reserve on Available-for-sale Financial Assets (Note 7)	Remeasurement Gain (Loss) on Pension Obligation	Retained Earnings (Note 18)	Total
As of January 1, 2017							
As previously reported (Note 2)	**₱250,000,000**	**₱112,431**	**₱100,000**	**₱241,161,266**	**(₱889,110)**	**₱120,675,080**	**₱611,159,667**
Change in accounting policy (Note 2)	–	–	–	–	–	**(6,877,998)**	**(6,877,998)**
As restated (Note 2)	**250,000,000**	**112,431**	**100,000**	**241,161,266**	**(889,110)**	**113,797,082**	**604,281,669**
Net income for the year	–	–	–	–	–	**14,635,455**	**14,635,455**
Other comprehensive income	–	–	–	**122,309,640**	**1,849,112**	–	**124,158,752**
Total comprehensive income for the year				**122,309,640**	**1,849,112**	**14,635,455**	**138,794,207**
As of December 31, 2017	**₱250,000,000**	**₱112,431**	**₱100,000**	**₱363,470,906**	**₱960,002**	**₱128,432,537**	**₱743,075,876**
As of January 1, 2016							
As previously reported (Note 2)	₱250,000,000	₱112,431	₱100,000	₱281,175,302	(₱1,500,160)	₱68,047,532	₱597,935,105
Change in accounting policy (Note 2)	–	–	–	–	–	(1,886,182)	(1,886,182)
As restated (Note 2)	250,000,000	112,431	100,000	281,175,302	(1,500,160)	66,161,350	596,048,923
Net income for the year, as restated (Note 2)	–	–	–	–	–	47,635,732	47,635,732
Other comprehensive loss	–	–	–	(40,014,036)	611,050	–	(39,402,986)
Total comprehensive income (loss) for the year, as restated (Note 2)	–	–	–	(40,014,036)	611,050	47,635,732	8,232,746
As of December 31, 2016, as restated (Note 2)	₱250,000,000	₱112,431	₱100,000	₱241,161,266	(₱889,110)	₱113,797,082	₱604,281,669

See accompanying Notes to Financial Statements.

THE FIRST NATIONWIDE ASSURANCE CORPORATION
STATEMENTS OF CASH FLOW

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱17,285,386**	₱48,513,315
Adjustments for:		
Depreciation expense (Note 22)	**2,177,859**	3,365,414
Net unrealized foreign exchange gain	**(345,123)**	(332,065)
Interest income (Note 20)	**(12,737,318)**	(12,714,102)
Dividend income (Note 20)	**(10,766,843)**	(13,664,354)
Rent income (Note 20)	**(2,040,665)**	(1,943,490)
Gain on sale of AFS financial assets (Notes 7 and 20)	**(480,108)**	(243,836)
Net pension cost (Note 12)	**3,158,819**	3,130,531
Amortization of discount (Note 7)	**1,798,279**	(442,176)
Operating income (loss) before working capital changes	**(1,949,714)**	25,669,237
Increase (decrease) in:		
Insurance receivables	**(63,441,039)**	3,677,183
Loans and receivables	**(63,913)**	(219,606)
Deferred acquisition costs	**(1,975,203)**	(803,613)
Reinsurance assets	**98,397,724**	219,001,356
Other assets	**544,417**	(1,549,382)
Increase (decrease) in:		
Insurance contract liabilities	**(83,798,662)**	(237,074,132)
Insurance payables	**16,924,698**	(1,884,719)
Accounts payable and accrued expenses	**(17,968,751)**	17,486,416
Deferred reinsurance commissions	**1,284,921**	(4,839)
Net cash generated from operations	**(52,045,522)**	24,297,901
Contributions paid	–	(4,109,080)
Income taxes paid	**(3,958,109)**	(2,263,286)
Net cash provided by (used in) operating activities	**(56,003,631)**	17,925,535
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals or maturities of:		
Short-term investments (Note 5)	–	3,649,184
AFS financial assets (Note 7)	**17,880,504**	91,710,535
Long-term commercial papers (Note 7)	**50,000,000**	8,000,000
Dividends received	**10,961,363**	13,838,360
Interest received	**10,644,869**	13,483,453
Rent Received	**2,032,370**	1,935,589
Acquisitions of:		
Short-term investments (Note 5)	–	(814,433)
AFS financial assets	**(73,250,000)**	(77,530,000)
Long-term commercial papers (Note 7)	**(2,750,000)**	(37,530,000)
Property and equipment (Note 11)	**(494,515)**	(652,462)
Net cash provided by investing activities	**15,024,591**	16,090,226

(Forward)

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(₱40,979,040)**	₱34,015,761
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**60,243,091**	26,227,330
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱19,264,051**	₱60,243,091

See accompanying Notes to Financial Statements.

1. Corporate Information

The First Nationwide Assurance Corporation (the Company) is 54.7% owned by Malayan Insurance Co., Inc. (MICO) and 45.3% owned by MICO Equities, Inc. (MEI). The Company's ultimate parent is Pan Malayan Management and Investment Corporation (PMMIC).

The Company was incorporated in the Philippines to engage in nonlife insurance business dealing with all kinds of insurance such as fire, marine, motor car, personal accident, miscellaneous casualty and bonds.

The Company was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June11, 1965. On July 31, 2012, SEC approved the amended Articles of Incorporation of the Company whereby the period during which the Company is to exist is fifty (50) years from and after June 11, 2015.

The registered office address of the Company is 4th Floor, Yuchengco Tower II, No. 111 L. P. Leviste Street, Belair, Makati City.

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

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared using the historical cost basis, except for available-for-sale (AFS) financial assets 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.

The financial statements provide comparative information in respect of the previous period.
In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2016 is presented in these financial statements due to retrospective adjustments as disclosed in the adoption of Circular letter 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves.*

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.

Effective in 2017

- 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 9)	₱160,948,028	₱2,980,742	₱163,928,770
Insurance contract liabilities (Note 14)	(279,291,480)	(9,858,740)	(289,150,220)
Retained earnings	120,675,080	(6,877,998)	113,797,082

			Year Ended December 31, 2016
Statements of Comprehensive Income			
Gross change in insurance contract liabilities (Note 14)	(₱244,724,974)	(₱2,113,685)	(₱246,838,659)
Reinsurers' share of gross change in insurance contract liabilities (Note 14)	212,778,871	7,105,501	219,884,372
Net income	52,627,548	(4,991,816)	47,635,732

			As at January 1, 2016
Statements of Financial Position	As previously reported	Effect of adoption	As restated
Reinsurance assets (Note 9)	₱372,843,883	₱10,086,243	₱382,930,126
Insurance contract liabilities (Note 14)	(514,251,927)	(11,972,425)	(526,224,352)
Retained earnings	68,047,532	(1,886,182)	66,161,350

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.

Foreign Currency Transactions and Translations

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

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 (3) months or less from dates of placements and are subject to an insignificant risk of changes in value.

Short-term Investments

Short-term investments are investments with terms of more than three months but less than one year from dates of placements.

Insurance Receivables

Premiums receivable and due from ceding companies are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income. Insurance receivables are derecognized following the derecognition criteria of financial assets.

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. 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 instruments at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment property carried at cost.

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' 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' and (b) 'Accounts payables, accrued expenses and other liabilities' that meet the above definition (other than liabilities covered by other accounting standards, such as net pension obligation 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any difference between loss estimates and actual loss experience.

<u>Derecognition of Financial Assets and Liabilities</u>
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. Other acquisition costs include referral fee which is classified under Other underwriting expense. 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 profit or loss. 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.

Investment Property
Investment property is measured initially at cost, including transaction costs. Investment property is held to earn rentals rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business.

Investment property consists of a real estate property which is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is computed using the straight-line method over the estimated useful life of the building of 25 years. 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 investment property.

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

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

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

The estimated useful lives of the significant components of property and equipment are:

	Years
Building and improvement	50
Office furniture, fixtures and equipment	5
Transportation equipment	5
Leasehold improvements	5

The estimated useful life and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits of these assets.

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 statement of income in the year the asset is derecognized.

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

Computer software is carried at cost less accumulated amortization. Computer software cost is amortized over the expected useful life of the asset, but not to exceed five (5) years. All computer software components are amortized over five (5) years.

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 an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (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, 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.

Real Estate Properties for Sale
Real estate properties for sale are measured at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs to sell. The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs

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 as part of 'Insurance contract liabilities' and presented in the liabilities section of the statement of financial position. 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.

Claims Provision and Incurred But Not Reported (IBNR) Losses
These liabilities 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 liability is not discounted for the time value of money and includes provision for IBNR losses. The IBNR is calculated at the reporting date using a range of actuarial projection techniques, such as but not limited to the chain ladder method, expected loss ratio method and 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.

Insurance Payables
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.

Pension Cost

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

Equity

Capital Stock

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.

Contributed Surplus
Contributed surplus represents the original contribution of the stockholders of the Company, in addition to the paid-up capital stock, in order to comply with the pre-licensing requirements as provided under the Insurance Code (the Code).

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. 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.

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

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

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

Rental income
Rental income from investment property under operating leases is recognized in the statement of income on a straight-line basis over the term of the lease.

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

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.

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 expenses
Other expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Other expenses are recognized in the statement of income in the period these are incurred.

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

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

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

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

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

Contingent liabilities are not recognized in the financial statements. 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 income tax
Deferred income 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 income 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.

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 the statements of comprehensive income are likewise recognized in the statements of income.

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. Summary of Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
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.

Operating lease commitments - Company as lessor
The Company entered into commercial property lease on its investment property. The Company determined that it retains all the significant risks and rewards of ownership of the property, thus accounts for them as operating lease.

Operating lease commitments - Company as lessee
The Company entered into various property leases with various lessors. The Company determined that the lessors retain all the significant risks and rewards of ownership of the leased properties thus accounts for them as operating leases.

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

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

<u>Estimates</u>
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.

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

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

The carrying values of provision for outstanding claims and IBNR amounted to ₱86.57 million and ₱190.12 million as of December 31, 2017 and 2016, respectively (see Note 14).

Fair values of financial assets
The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include

considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The carrying value of AFS financial assets amounted to ₱706.75 million and ₱530.04 million as of December 31, 2017 and 2016, respectively (see Note 7).

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

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

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

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

Insurance receivables amounted to ₱136.64 million and ₱73.20 million as of December 31, 2017 and 2016, respectively (see Note 6). Loans and receivables, net of allowance for doubtful accounts amounted to ₱38.20 million and ₱85.39 million as of December 31, 2017 and 2016, respectively (see Note 7). In December 31, 2017 and 2016, the Company has not recognized any impairment losses on its insurance receivables (Note 6).

Impairment of nonfinancial assets
The Company assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. In 2017 and 2016, the Company has not recognized any impairment losses on nonfinancial assets.

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

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

As of December 31, 2017 and 2016, deferred tax assets amounted to ₱3.79 million and ₱4.72 million, respectively (see Note 23).

Estimation of pension obligations and other retirement benefits
The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of end of the reporting period. Refer to Note 12 for the details of assumptions used in the calculation. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized 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 obligation.

The Company's net pension obligation amounted to ₱4.91 million and ₱4.39 million as of December 31, 2017 and 2016, respectively (see Note 12).

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Petty cash fund	**₱76,100**	₱76,100
Cash in banks	**18,671,213**	30,356,734
Cash equivalents	**516,738**	29,810,257
	₱19,264,051	₱60,243,091

Cash in banks earns annual interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company, and earn interest at rates ranging from 0.01% to 2.50% in 2017 and in 2016.

Interest income earned from cash and cash equivalents amounted to ₱0.13 million and ₱0.11 million in 2017 and 2016, respectively (Note 20).

5. **Short-term Investments**

Short-term investments consist of money market placements amounting to ₱0.81 million as of December 31, 2017 and 2016. Short-term investments are made for periods ranging more than three (3) months and up to twelve (12) months and earn interest at the respective short-term investment rates. Interest income earned from short-term investment presented under "Interest income" in the statements of the comprehensive income amounted to ₱0.59 million and ₱1.17 million in 2017 and 2016, respectively (see Note 20).

6. **Insurance Receivables -** net

This account consists of:

	2017	2016
Premiums receivable	**₱23,886,837**	₱21,733,289
Premium due from ceding companies	**4,715,107**	3,911,044
Reinsurance recoverable on paid losses		
Foreign treaty	**103,947,526**	43,694,795
Local facultative	**810,535**	579,838
Loss reserve withheld by ceding companies	**3,279,022**	3,279,022
	₱136,639,027	₱73,197,988

Premium receivables represent premiums on written policies which are collectible within the Company's allowed payment period.

Due from ceding companies are premiums collectible for assumed business from other insurance companies.

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

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

The following table shows aging information of insurance receivables:

December 31, 2017

	< 30 days	**31 to 60 days**	**61 to 120 days**	**> 120 days**	**Total**
Premiums receivable	**₱5,427,627**	**₱2,798,445**	**₱2,922,422**	**₱12,738,343**	**₱23,886,837**
Due from ceding companies	**804,064**	–	–	**3,911,043**	**4,715,107**
Reinsurance recoverable on paid losses	–	–	–	**104,758,061**	**104,758,061**
Loss reserve withheld by ceding company	–	–	–	**3,279,022**	**3,279,022**
	₱6,231,691	**₱2,798,445**	**₱2,922,422**	**₱124,686,469**	**₱136,639,027**

December 31, 2016

	< 30 days	31to 60 days	61 to 120 days	> 120 days	Total
Premiums receivable	₱5,071,452	₱3,528,570	₱1,253,303	₱11,879,964	₱21,733,289
Due from ceding companies	1,098,321	–	–	2,812,723	3,911,044
Reinsurance recoverable on paid losses	–	–	–	44,274,633	44,274,633
Loss reserve withheld by ceding company	–	–	–	3,279,022	3,279,022
	₱6,169,773	₱3,528,570	₱1,253,303	₱62,246,342	₱73,197,988

As of December 31, 2017 and 2016, the Company has not recognized any provision for impairment on its insurance receivables.

7. **Financial Asset**

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

	2017	2016
AFS financial assets	**₱706,748,309**	**₱530,042,221**
Loans and receivables	**38,201,659**	**85,387,746**
	₱744,949,968	**₱615,429,967**

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

a) AFS financial assets

This account is consists of:

	2017	2016
Quoted securities - at fair value		
Listed equity securities		
Common shares	**₱484,180,629**	₱360,214,869
Preferred shares	**5,850,000**	6,050,000
Government debt securities		
Local currency	**135,521,511**	68,003,310
Private debt securities		
Foreign currency	**62,200,738**	78,420,284
	687,752,878	512,688,463
Unlisted equity securities	**6,000,000**	6,000,000
Investment in mutual fund	**12,995,431**	11,353,758
Total AFS financial assets recognized in the statements of financial position	**₱706,748,309**	₱530,042,221

In accordance with the provisions of the Insurance Code (the Code), government securities with face value totaling to ₱137.85 million and ₱67.35 million 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, respectively.

As of December 31, 2017 and 2016, the revaluation reserve on AFS financial assets amounted to ₱363.47 million and ₱241.16 million, respectively.

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

	2017	2016
Balance at beginning of year	**₱530,042,221**	₱583,218,715
Acquisitions	**73,250,000**	77,530,000
Net unrealized fair value gain (loss) charged against other comprehensive income	**122,309,640**	(45,418,658)
Impairment loss on AFS financial assets	**–**	5,404,622
Discount amortization	**(1,798,279)**	442,176
Net unrealized foreign exchange gains	**345,123**	332,065
Disposals and maturities	**(17,400,396)**	(91,466,699)
Balance at end of year	**₱706,748,309**	₱530,042,221

Gains on disposals of AFS financial assets amounted to ₱0.48 million and ₱0.24 million in 2017 and 2016, respectively (see Note 20).

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

	2017	2016
Due within one year	**₱–**	₱17,684,559
Due after one year through five years	**78,607,712**	106,235,435
Due after five years through ten years	**119,114,537**	22,503,600
	₱197,722,249	₱146,423,594

The roll forward analysis of the revaluation reserve on AFS financial assets is as follows:

	2017	2016
Balance at beginning of year	**₱241,161,266**	₱281,175,302
Unrealized fair value gains (losses)	**122,309,640**	(45,418,658)
Impairment on AFS financial assets (Note 20)	–	5,404,622
Balance at end of year	**₱363,470,906**	₱241,161,266

The impairment losses on AFS financial assets amounting nil and ₱5.40 million in 2017 and 2016, respectively, were transferred from revaluation reserve on AFS financial assets to statements of income.

b. *Loans and receivables*

This account consists of:

	2017	2016
Long-term commercial papers	**₱35,280,000**	₱82,530,000
Notes receivable	**1,200,555**	2,077,658
Accounts receivable	**1,685,658**	744,642
Security fund	**35,446**	35,446
	₱38,201,659	₱85,387,746

Interest on long term commercial papers amounted to ₱3.20 million and ₱3.30 million in 2017 and 2016, respectively, with annual interest rates ranging from 3.892% to 6.80% and from 3.892% to 7.2% in 2017 and 2016, respectively (Note 20).

Notes receivable pertains to amounts due from its managers and officers as part of car plan benefits. The employee's share is recorded as notes receivable which is collected through salary deductions. The notes receivable is payable within five (5) years with annual interest rate of 8.00%.

Accounts receivable consists of various cash advances to employees and salary deductions of employees arising from excess in medical allowance reimbursements.

Accrued income consists of:

	2017	2016
Accrued interest income	**₱5,214,121**	₱3,121,672
Accrued rent income	**162,203**	165,908
Accrued dividend income	**–**	182,520
	₱5,376,324	₱3,470,100

8. **Deferred Acquisition Costs -** net

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

	2017	2016
Deferred acquisition costs		
At January 1	**₱9,818,608**	₱9,014,995
Cost deferred during the year	**3,248,612**	1,725,297
Amortization during the year	**(1,273,409)**	(921,684)
At December 31	**11,793,811**	9,818,608
Deferred reinsurance commission		
At January 1	**2,010,764**	2,015,603
Income deferred during the year	**6,380,496**	4,246,104
Amortization during the year	**(5,095,575)**	(4,250,943)
At December 31	**3,295,685**	2,010,764
	₱8,498,126	₱7,807,844

9. **Reinsurance Assets**

This account consists of:

	2017	2016
Reinsurance recoverable on unpaid losses (Note 14)	**₱47,545,516**	₱152,167,282
Deferred reinsurance premiums (Note 14)	**17,985,530**	11,761,488
	₱65,531,046	₱163,928,770

10. **Investment Property -** net

The roll forward analysis of this account follows:

	2017	2016
Cost		
Balance at beginning and end of year	**₱9,879,585**	₱9,879,585
Accumulated depreciation		
Balance at beginning of year	**9,879,585**	9,877,295
Depreciation (Note 22)	**–**	2,290
Balance at end of year	**9,879,585**	9,879,585
Net book value	**₱–**	₱–

The investment property is fully depreciated as at December 31, 2016 but is still being rented out and used as of December 31, 2017.

Rental income earned from the investment property amounted to ₱2.04 million and ₱1.94 million in 2017 and 2016, respectively (Note 20).

Depreciation and amortization expense pertaining to investment property amounted to nil and ₱2,290 in 2017 and 2016, respectively (Note 22).

The investment property is located at Y Tower II, Gallardo cor. Leviste St., Salcedo Village, Makati City. The highest and best use of the property is a commercial space with estimated fair value of ₱74.50 million and ₱74.09 million as of December 31, 2017 and 2016, respectively. The fair value of the investment property was determined by independent professionally qualified appraisers.

The value of the property was arrived at using the *Market Data Approach*. In this approach, the value of the property was based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity of the subject property.

11. **Property and Equipment -** net

The roll forward analysis of this account follows:

	December 31, 2017				
	Building and Improvement	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**EDP Software**	**Total**
Cost					
Balances at beginning of year	**₱24,496,457**	**₱8,021,352**	**₱1,965,625**	**₱16,011,690**	**₱50,495,124**
Additions		**313,671**	**–**	**180,844**	**494,515**
Balances at end of year	**24,496,457**	**8,335,023**	**1,965,625**	**16,192,534**	**50,989,639**

(Forward)

	December 31, 2017				
	Building and Improvement	**Office Furniture, Fixtures and Equipment**	**Transportation Equipment**	**EDP Software**	**Total**
Accumulated Depreciation and Amortization					
Balances at beginning of year	**₱8,316,381**	**₱6,831,560**	**₱1,775,432**	**₱15,641,747**	**₱32,565,120**
Depreciation and amortization (Note 22)	**1,275,119**	**421,519**	**190,193**	**291,028**	**2,177,859**
Balances at end of year	**9,591,500**	**7,253,079**	**1,965,625**	**15,932,775**	**34,742,979**
Net Book Value	**₱14,904,957**	**₱1,081,943**	**₱–**	**₱259,760**	**₱16,246,660**

	December 31, 2016				
	Building and Improvement	Office Furniture, Fixtures and Equipment	Transportation Equipment	EDP Software	Total
Cost					
Balances at beginning of year	₱24,304,493	₱7,560,854	₱1,965,625	₱16,011,690	₱49,842,662
Additions	191,964	460,498	–	–	652,462
Balances at end of year	24,496,457	8,021,352	1,965,625	16,011,690	50,495,124
Accumulated Depreciation and Amortization					
Balances at beginning of year	7,008,481	6,164,284	1,382,307	14,644,634	29,199,706
Depreciation and amortization (Note 22)	1,307,900	667,276	393,125	997,113	3,365,414
Balances at end of year	8,316,381	6,831,560	1,775,432	15,641,747	32,565,120
Net Book Value	₱16,180,076	₱1,189,792	₱190,193	₱369,943	₱17,930,004

The depreciation and amortization expense charged against operations amounted to ₱2.18 million and ₱3.37 million in 2017 and 2016, respectively (Note 22).

12. Net Pension Obligation

The Company has a funded, noncontributory, defined benefit retirement plan covering all of its employees. The Company's trustee bank for its retirement fund is RCBC (Rizal Commercial Banking Corporation), a related party. The Company's President approves the transactions made by the retirement fund.

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

Net pension benefit expense

	2017	2016
Current service cost	**₱2,930,811**	₱2,817,673
Net interest cost	**228,008**	312,858
Net benefit expense	**₱3,158,819**	₱3,130,531

Remeasurement effects to be recognized in OCI

	2017	2016
Actuarial gain on pension obligation	**₱2,630,364**	₱901,484
Remeasurement gain (loss) on plan assets	**11,225**	(28,556)
Total amount to be recognized in OCI	**₱2,641,589**	₱872,928

Net pension obligation

	2017	2016
Benefit obligation	**₱14,648,779**	₱13,640,395
Pension assets	**(9,738,349)**	(9,247,195)
Net pension obligation	**₱4,910,430**	₱4,393,200

Changes in defined benefit obligation are as follow:

	2017	2016
Defined benefit obligation at January 1	**₱13,640,395**	₱11,164,847
Current service cost	**2,930,811**	2,817,673
Interest cost	**707,937**	559,359
Actuarial gain to be recognized in OCI	**(2,630,364)**	(901,484)
Defined benefit obligation at December 31	**₱14,648,779**	₱13,640,395

Changes in fair value of plan assets are as follow:

	2017	2016
Fair value of plan assets at January 1	**₱9,247,195**	₱4,920,170
Interest	**479,929**	246,501
Contributions	**–**	4,109,080
Remeasurement gain (loss)	**11,225**	(28,556)
Balance at end of year	**₱9,738,349**	₱9,247,195
Actual return on plan assets	**₱491,154**	₱217,945

The Company expects to contribute ₱4.71 million to its retirement plan in 2018.

Following is the distribution of the Company's plan assets stated at fair value as of December 31:

	2017	2016
Cash in bank	**₱4,223,959**	₱5,453,416
Investments in:		
Common and preferred stocks	**1,016,039**	704,933
Government securities	**3,746,340**	1,787,251
Other securities and debt instruments	**709,364**	1,114,082
Receivables	**55,118**	194,415
Total assets	**9,750,820**	9,254,097
Liabilities	**(12,471)**	(6,902)
Net assets	**₱9,738,349**	₱9,247,195

The following presents the transactions of the Company's retirement fund with related parties:

Category	2017	2016 Balance	Terms	Conditions
RCBC - Retirement Fund				
Savings deposits	**₱11,335**	₱11,335	Non-interest bearing; on demand	Unsecured; no impairment
Corporate bonds	**145,731**	145,731	Non-interest bearing; on demand	Unsecured; no impairment

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

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

The rollforward analysis of remeasurement loss on retirement plan follows:

	2017	2016
At January 1	**(₱889,110)**	(₱1,500,160)
Recognized in OCI	**2,641,589**	872,929
Tax effect (Note 22)	**(792,477)**	(261,879)
At December 31	**₱960,002**	(₱889,110)

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	**+0.5%**	**(₱1,259,584)**	**(9.41%)**
	–0.5%	**1,417,091**	**8.82%**
Salary increase rate	**+1.00%**	**2,920,300**	**16.62%**
	–1.00%	**(2,354,649)**	**(19.15%)**

2016

	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)	Percentage change
Discount rate	+0.5%	(₱1,221,398)	(9.83%)
	–0.5%	1,376,030	9.16%
Salary increase rate	+1.00%	2,825,938	17.16%
	–1.00%	(2,275,416)	(20.02%)

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 1 year to 5 years	**₱–**	₱1,989,055
More than 5 years to 10 years	**1,388,469**	1,399,606
More than 10 years to 15 years	**10,692,773**	10,607,858
More than 15 years to 20 years	**29,036,827**	34,606,140
More than 20 years	**394,547,384**	357,981,850

The average duration of the defined benefit obligation at the end of the reporting period is 23 years.

13. **Other Assets**

This account consists of:

	2017	2016
Prepayments	**₱3,419,048**	₱3,998,161
Input VAT	**874,787**	881,579
Real estate properties for sale	**880,000**	880,000
Refundable deposit	**145,098**	145,098
Deferred input VAT	**–**	14,956
Creditable Withholding Tax	**56,444**	–
	₱5,375,377	₱5,919,794

Prepayments include documentary stamp tax and various underwriting form supplies and software.

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.

Real estate properties for sale consist of investments in memorial lots. There was no disposal of real estate properties in 2017 and 2016.

Refundable deposits comprises of security deposits as part of the Company's contract of lease.

Deferred input VAT pertains to the remaining unapplied input vat coming from purchased of capital goods exceeding ₱1.0 million to be amortized within 5 years.

Creditable withholding tax pertains to the Company's tax withheld at source by its customers.

14. Insurance Contract Liabilities

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 9)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
Provision for claims reported and loss adjustment expenses	**₱68,834,609**	**₱38,193,777**	**₱30,640,832**	₱180,266,342	₱149,186,540	₱31,079,802
Provision for IBNR claims	**17,739,775**	**9,351,739**	**8,388,036**	–	–	–
Change in estimate (Note 2)	–	–	–	9,858,740	2,980,742	6,877,998
Total claims reported and IBNR (Note 26)	**86,574,384**	**47,545,516**	**39,028,868**	190,125,082	152,167,282	37,957,800
Provision for unearned premiums	**118,777,174**	**17,985,530**	**100,791,644**	99,025,138	11,761,488	87,263,650
Total insurance contract liabilities	**₱205,351,558**	**₱65,531,046**	**₱139,820,512**	₱289,150,220	₱163,928,770	₱125,221,450

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

	2017			2016 (As restated – Note 2)		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 9)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
At January 1	**₱190,125,082**	**₱152,167,282**	**₱37,957,800**	₱436,963,741	₱372,051,654	₱64,912,087
Claims incurred during the year	**(32,570,745)**	**(110,044,099)**	**77,473,354**	(167,925,259)	(209,395,576)	41,470,317
Increase in IBNR (Note 22)	**7,881,036**	**6,370,997**	**1,510,039**	–	–	–
Change in estimate	–	–	–	(2,113,685)	7,105,501	(9,219,186)
Total claims reported and claims IBNR	**165,435,373**	**48,494,180**	**116,941,193**	266,924,797	169,761,579	97,163,218
Claims paid during the year (Note 14)	**(78,860,989)**	**(948,664)**	**(77,912,325)**	(76,799,715)	(17,594,297)	(59,205,418)
Balance at end of year	**₱86,574,384**	**₱47,545,516**	**₱39,028,868**	₱190,125,082	₱152,167,282	₱37,957,800

Provision for unearned premiums may be analyzed as follows:

	2017			2016		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 9)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
Balance at beginning of year	**₱99,025,138**	**₱11,761,488**	**₱87,263,650**	₱89,260,611	₱10,878,472	₱78,382,139
New policies written during the year (Note 19)	**234,097,251**	**41,315,213**	**192,782,038**	201,808,320	23,032,057	178,776,263
Premiums earned during the year (Note 19)	**(214,345,215)**	**(35,091,171)**	**(179,254,044)**	(192,043,793)	(22,149,041)	(169,894,752)
Balance at end of year	**₱118,777,174**	**₱17,985,530**	**₱100,791,644**	₱99,025,138	₱11,761,488	₱87,263,650

15. **Insurance Payables**

This account consists of:

	2017	2016
Due to reinsurers	**₱8,398,021**	₱–
Funds held for reinsurers	**8,570,272**	43,595
	₱16,968,293	₱43,595

The roll forward analysis of insurance balances payable is as follows:

	Due to reinsurers		**Premium Reserve withheld for reinsurers**	
	Treaty	**Facultative**		**Total**
At January 1, 2016	₱–	₱–	₱10,294,912	₱10,294,912
Additions/utilizations, net	–	–	(10,251,317)	(10,251,317)
At December 31, 2016	**₱–**	**₱–**	**₱43,595**	**₱43,595**
Additions/utilizations, net	**8,321,369**	**76,653**	**(1,724,640)**	**6,673,381**
At December 31, 2017	**₱8,321,369**	**₱76,653**	**₱8,570,272**	**₱16,968,293**

16. **Accounts Payable, Accrued Expenses and Other Liabilities**

This account consists of:

	2017	2016
Accounts payable	**₱13,987,384**	₱30,547,667
Accrued expenses	**11,905,982**	9,235,340
Due to MICO (Note 24)	**1,252,332**	6,643,881
Accrued taxes	**3,011,794**	2,928,291
Deferred output VAT	**3,597,622**	2,717,898
Security deposit	**949,801**	924,915
Documentary stamps tax payable	**1,246,860**	922,534
	₱35,951,775	₱53,920,526

All accounts payable and accrued expenses are due within one year.

The main composition of accounts payable are the set-up for outstanding unreleased checks and set-up for unreceipted deposits.

Accrued expenses comprise of employee benefits, utilities and other expenses accrued as of the reporting date which is due within one year.

Due to MICO consists of shared expenses such as janitorial and delivery services, business development, rentals and utilities.

Security deposit arise from the rental of FNAC building by Philippine Integrated Advertising Agency. It was composed of 3 months Security Deposit increased annually by 5%.

Accrued taxes are the taxes due for the month of December 2017, which is payable on the 1st month of 2018.

17. Capital Stock

The details of the number of shares follow:

	Shares	Amount
Common stock - ₱100 par value		
Authorized	**2,500,000**	**₱250,000,000**
Issued and outstanding:		
At beginning of the of year/ end of the year	**2,500,000**	**₱250,000,000**

18. Retained Earnings

Cash Dividends
The Company has no declaration of cash dividends as of December 31, 2017 and 2016.

19. Net Premiums Earned

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

	2017	2016
Gross premiums on insurance contracts		
Direct insurance	**₱221,363,160**	₱189,542,406
Assumed reinsurance	**12,734,091**	12,265,914
Total gross premiums on insurance contracts	**234,097,251**	201,808,320
Gross change in provision for unearned premiums	**(19,752,036)**	(9,764,527)
Total gross earned premiums on insurance contracts (Note 14)	**214,345,215**	192,043,793
Reinsurers' share of gross premiums written - direct	**41,315,213**	23,032,057
Reinsurers' share of gross change in provision for unearned premiums	**(6,224,042)**	(883,016)
Reinsurers' share of gross premiums (Note 14)	**35,091,171**	22,149,041
	₱179,254,044	₱169,894,752

20. Investment and Other Income - net

This account consists of:

	2017	2016
Dividend income	**₱10,766,843**	₱13,664,354
Interest income		
AFS financial assets (Note 7)	**8,674,628**	7,978,295
Long-term commercial papers (Note 7)	**3,231,012**	3,303,873
Short-term investments (Note 5)	**585,343**	1,172,512
Cash and cash equivalents (Note 4)	**128,179**	114,693
Notes receivable (Note 7)	**118,156**	144,729

(Forward)

	2017	2016
Rental income (Note 10)	**₱2,040,665**	₱1,943,490
Gain on sale of AFS financial assets - net	**480,108**	243,836
Impairment loss on AFS financial asset (Note 7)	**–**	(5,404,622)
Others	**61,059**	39,568
	₱26,085,993	₱23,200,728

21. **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	**₱77,283,769**	₱75,391,911
Assumed	**1,577,220**	1,407,804
Total insurance contract benefits and claims paid (Note 14)	**₱78,860,989**	₱76,799,715

Reinsurers' share of gross insurance contract benefits and claims paid amounted to ₱0.95 million and ₱17.59 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	**₱101,073,519**	₱240,933,691
Assumed reinsurance	**(204,624,217)**	(487,772,350)
Total gross change in insurance contract benefit and claims liabilities	**(₱103,550,698)**	(₱246,838,659)

Reinsurers' share of gross change in insurance contract benefits and claims liabilities for the years ended December 31, 2017 and 2016 amounted to ₱104.62 million and ₱219.88 million, respectively.

22. **General and Administrative Expense**

This account consists of:

	2017	2016
Salaries, wages and allowances (Note 12)	**₱40,755,474**	₱39,743,358
Marketing and sales promotion	**14,288,849**	11,190,674
Transportation and travel	**8,006,994**	7,990,505
Employee benefits	**6,977,046**	7,089,704
Postage	**4,334,082**	4,080,638
Utilities	**4,226,489**	4,586,887
Professional fees	**2,784,544**	2,369,094
Depreciation expense (Notes 10 and 11)	**2,177,859**	3,367,704
Printing and office supplies	**1,711,248**	2,680,173

(Forward)

	2017	2016
Agency expenses	**₱1,358,589**	₱1,312,399
Business development	**1,155,712**	2,860,196
Write off of insurance receivables	**1,072,466**	–
Entertainment, amusement and recreation	**799,504**	828,318
Taxes, licenses and fees	**547,410**	1,482,441
Membership and association dues	**436,948**	592,064
Repairs and maintenance	**375,854**	372,550
Advertising and promotion	**97,801**	94,563
Others	**37,847**	948,383
	₱91,144,716	₱91,589,651

Others consist mainly of security services, surety and property insurance, periodicals and books expense, business development expense, bank charges, merchants fee, janitorial services, payment to common expenses billed by MICO and penalties.

23. Income Tax

The provision for income tax consists of:

	2017	2016
Current	**₱814,192**	₱2,086,092
Final	**1,699,991**	1,848,806
Deferred	**135,748**	(3,057,315)
	₱2,649,931	₱877,583

The current provision for income tax represents MCIT. The components of the recognized deferred tax assets and liabilities follow:

	2017	2016
Deferred tax assets on:		
Excess of provision for unearned premiums per books over tax basis	**₱–**	₱5,419,847
Pension obligation - OCI	**1,168,752**	1,961,229
Pension obligation - profit and loss	**2,725,391**	1,777,745
Deferred reinsurance commissions	–	603,229
	3,894,143	9,762,050
Deferred tax liabilities on:		
Deferred acquisition costs	–	2,945,582
Deferred reinsurance premiums	–	764,600
Unrealized foreign currency exchange gain - net	**103,537**	1,333,037
	103,537	5,043,219
	₱3,790,606	₱4,718,831

As of December 31, 2017, the Company has not recognized the deferred tax assets on the following deductible temporary differences:

	2017	2016
NOLCO (Net operating loss carry over)	**₱29,859,945**	₱24,235,267
MCIT	**3,324,006**	3,147,265
IBNR (Note 14)	**8,388,036**	6,877,998

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	₱8,201,890	₱–	₱–	₱8,201,890	2020
2015	21,658,055	–	–	21,658,055	2018
2014	3,450,182	–	3,450,182	–	2017
	₱33,310,127	₱–	₱3,450,182	₱29,859,945	

Details of MCIT follows:

Inception Year	MCIT	Application	Expired	Outstanding	Expiry Year
2017	₱783,282	₱–	₱–	₱783,282	2020
2016	2,086,092	–	–	2,086,092	2019
2015	454,632	–	–	454,632	2018
2014	606,541	–	606,541	–	2017
	₱3,930,547	₱–	₱606,541	₱3,324,006	

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	**₱6,698,538**	₱7,199,465
Add (deduct) the tax effects of:		
Change in unrecognized deferred tax assets	**2,780,126**	(7,354,530)
Nondeductible expenses	**–**	
Income subject to final tax	**(2,085,758)**	(3,843,963)
Dividend income	**(3,230,053)**	(4,099,306)
Provision for income tax	**₱2,649,931**	₱877,583

24. **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.

25. **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, has entered into transactions with related parties principally consisting of the following:

	2017		2016			
Category	**Amount / Volume**	**Outstanding Receivable (Payable)**	Amount / Volume	Outstanding Receivable (Payable)	Terms	Conditions
Parent						
MICO						
Reinsurer's share on premiums written	**₱32,497,481**	**(₱14,287,881)**	₱23,117,424	₱–	Non-interest bearing; on demand	Unsecured
Commission income	**6,305,845**	**2,803,116**	4,215,159	–	Non-interest bearing; on demand	Unsecured
Intercompany advances	**1,400,080**	**(1,400,080)**	6,079,943	(6,643,881)	Non-interest bearing; on demand	Unsecured, no impairment
Recoverable on unpaid losses	–	–	44,687,190	44,687,190	–	–
Other related parties - Entities under common control						
Rizal Commercial Banking Corporation (RCBC)						
Current and savings account	**17,582,824**	**(5,910,356)**	59,343,027	59,539,424	Interest rate at 0.5% p.a.	Unsecured, no impairment
Short-term deposits	**516,739**	–	989,971	–	4 to 7-day term; Interest rate at 1.00% p.a.	Unsecured, no impairment
Interest income	**697,222**	**14,981**	1,270,117	232,951	4 to 7-day term; Interest rate at 0.5% to 1.00% p.a.	Unsecured, no impairment
Referral fee	**17,830,639**	**(2,512,520)**	18,540,945	(3,300,088)	Non-interest bearing; on demand	Unsecured
AFS in equity securities	**205,592,760**	**205,592,760**	124,618,556	124,618,556	–	Unsecured, no impairment
Dividend income	**2,050,356**	–	2,674,377	–	–	Unsecured, no impairment
Private debt securities	**27,725,103**	**27,725,103**	28,468,765	28,554,842	Maturing in 2017; Interest rate at 5.25% to 7.2% p.a	Unsecured, no impairment
Interest income	**905,989**		1,032,933	86,078	Maturing in 2017; Interest rate at 5.25% to 7.2% p.a	Unsecured, no impairment
Long term commercial papers	**5,000,000**	**-**	5,000,000	5,043,750	Maturing in 2019; Interest rate at 3.90% at 7.20% p.a	Unsecured, no impairment
Interest income	**131,250**	**-**	262,500	43,750	Maturing at 2019; Interest rate at 3.90% at 7.20% p.a	Unsecured, no impairment

(Forward)

	2017		2016			
Category	**Amount / Volume**	**Outstanding Receivable (Payable)**	Amount / Volume	Outstanding Receivable (Payable)	Terms	Conditions
Philippine Integrated Advertising Agency (PIAA)						
Rent income	**₱2,040,665**	**₱174,203**	₱1,943,490	₱165,908	Non-interest bearing; on demand	Unsecured, no impairment
House of Investments						
AFS in equity securities	**104,435,905**	**104,435,905**	78,752,619	78,752,619	–	Unsecured, no impairment
Dividend income	**922,328**	**–**	922,328	–	–	Unsecured, no impairment
iPeople Inc.						
AFS in equity securities	**35,101,300**	**35,101,300**	33,697,248	33,697,248	–	Unsecured, no impairment
Dividend income	**486,018**	**–**	486,018	–	–	Unsecured, no impairment
Sun Life Grepa Varia						
AFS in equity securities	**10,837,426**	**10,837,426**	9,582,783	9,582,783	–	Unsecured, no impairment

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

MEI, Rizal Commercial Banking Corporation (RCBC), Philippine Integrated Advertising Agency (PIAA), and iPeople Inc. are subsidiaries of PMMIC, the holding company of the Yuchengco Group of Companies.

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.

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 Malayan Insurance Company, Inc. 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.

Key management personnel of the Company include senior management. The total short-term employee benefit of the Company's key management personnel amounted to ₱0.31 million and ₱0.42 million in 2017 and 2016, respectively. As of December 31, 2017 and 2016, the total long-term employee benefits of the Company's key management personnel amounted to ₱5.48 million and ₱5.09 million, respectively.

26. Capital Management

Governance Framework
The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the individual business unit levels. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the

appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

Regulatory Framework
Regulators are interested in protecting the rights of the policyholders and maintain close right 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:

Net worth	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 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 net worth requirement must remain unimpaired for the continuance of the license. As of December 31, 2017 and 2016, the Company’s estimated statutory net worth amounted to ₱703.40 million and ₱557.0 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.

Insurance Risk
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.

For the year ended December 31, 2017 and 2016, the Company issued fire, motor car, surety and personal accident insurance contracts.

The table below sets out the concentration of the claims liabilities by type of contract (Note 14).

	Gross Claims Liabilities	**Reinsurers' Share of Claims Liabilities**	**Net 2017**	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net 2016
Bonds	**₱–**	**₱–**	**₱–**	₱150,000,000	₱134,061,569	₱15,938,431
Motorcar	**22,516,338**	**10,715,951**	**11,800,387**	11,654,224	362,340	11,291,884
Fire	**46,867,270**	**27,371,629**	**19,495,641**	25,901,501	17,038,395	8,863,106
Personal Accident	**17,190,776**	**9,457,936**	**7,732,840**	2,569,357	704,978	1,864,379
	₱86,574,384	**₱47,545,516**	**₱39,028,868**	₱190,125,082	₱152,167,282	₱37,957,800

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 Table

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each end of the reporting date, together with cumulative payments to date.

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 and by type of risks insured.

							Gross insurance contract liabilities in 2017						
Accident year	**2006 and prior year**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate claim costs													
Accident year	**₱–**	**₱–**	**₱3,354,715**	**₱71,370,865**	**₱28,909,893**	**₱38,690,398**	**₱51,175,748**	**₱65,505,542**	**₱60,652,937**	**₱74,155,211**	**₱79,603,235**	**₱115,985,670**	**₱115,985,670**
One year later	–	–	**3,710,990**	**46,637,252**	**27,555,456**	**43,980,481**	**45,608,213**	**97,277,224**	**59,872,412**	**85,999,560**	**71,133,141**	–	**71,133,141**
Two years later	–	–	**3,656,757**	**44,405,781**	**26,644,880**	**35,649,047**	**54,570,643**	**91,090,890**	**57,204,538**	**97,698,939**	–	–	**97,698,939**
Three years later	–	–	**3,647,719**	**44,034,162**	**26,594,880**	**35,676,787**	**53,425,667**	**91,059,963**	**57,195,138**	–	–	–	**57,195,138**
Four years later	–	–	**3,570,184**	**44,034,162**	**26,594,880**	**35,846,598**	**53,335,667**	**91,059,963**	–	–	–	–	**91,059,963**
Five years later	–	–	**3,570,184**	**44,034,162**	**26,594,880**	**35,846,598**	**53,357,110**	–	–	–	–	–	**53,357,110**
Six years later	–	–	**3,570,184**	**44,034,162**	**26,594,880**	**36,267,798**	–	–	–	–	–	–	**36,267,798**
Seven years later	–	–	**3,570,184**	**44,034,162**	**26,594,880**	–	–	–	–	–	–	–	**26,594,880**
Eight years later	–	–	**3,570,184**	**44,034,162**	–	–	–	–	–	–	–	–	**44,034,162**
Nine years later	–	–	**3,570,184**	–	–	–	–	–	–	–	–	–	**3,570,184**
Ten years later	–	–	–	–	–	–	–	–	–	–	–	–	–
Eleven years later	–	–	–	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	–	–	**3,570,184**	**44,034,162**	**26,594,880**	**36,267,798**	**53,357,110**	**91,059,963**	**57,195,138**	**97,698,939**	**71,133,141**	**115,985,670**	**596,896,985**
Cumulative payments to date	–	–	**3,570,184**	**44,034,162**	**26,594,880**	**36,262,798**	**53,357,110**	**91,059,963**	**57,195,138**	**97,438,403**	**49,645,021**	**51,164,942**	**510,322,601**
Total gross insurance contract liabilities in the statement of financial position	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,000**	**₱–**	**₱–**	**₱–**	**₱260,536**	**₱21,488,120**	**₱64,820,728**	**₱86,574,384**

							Net insurance contract liabilities in 2017						
Accident year	**2006 and prior year**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate claim costs													
Accident year													
One year later	₱–	₱–	₱3,292,715	₱60,938,970	₱26,788,882	₱35,632,488	₱35,588,533	₱39,401,837	₱45,403,798	₱63,549,652	₱61,974,573	₱71,298,378	₱71,298,378
Two years later	–	–	3,648,990	11,654,020	25,434,445	31,948,240	29,329,244	34,566,108	51,814,526	59,761,180	62,939,838	–	62,939,838
Three years later	–	–	3,594,757	9,416,277	24,523,869	23,198,238	34,032,359	28,675,195	49,147,490	59,609,034	–	–	59,609,034
Four years later	–	–	3,585,719	9,044,658	24,473,869	23,225,979	32,871,871	28,644,269	49,138,090	–	–	–	49,138,090
Five years later	–	–	3,508,184	9,044,658	24,473,869	23,395,790	32,781,871	28,644,269	–	–	–	–	28,644,269
Six years later	–	–	3,508,184	9,044,658	24,473,869	23,395,790	32,797,241	–	–	–	–	–	32,797,241
Seven years later	–	–	3,508,184	9,044,658	24,473,869	23,816,990	–	–	–	–	–	–	23,816,990
Eight years later	–	–	3,508,184	9,044,658	24,473,869	–	–	–	–	–	–	–	24,473,869
Nine years later	–	–	3,508,184	9,044,658	–	–	–	–	–	–	–	–	9,044,658
Ten years later	–	–	3,508,184	–	–	–	–	–	–	–	–	–	3,508,184
Eleven years later	–	–	–	–	–	–	–	–	–	–	–	–	–
Current estimate of cumulative claims	–	–	3,508,184	9,044,658	24,473,869	23,816,990	32,797,241	28,644,269	49,138,090	59,609,034	62,939,838	71,298,378	369,861,247
Cumulative payments to date	–	–	3,508,184	9,044,658	24,473,869	23,811,990	32,797,241	28,644,269	49,138,090	54,799,049	59,178,917	40,845,413	335,423,075
Net insurance contract liabilities in the statement of financial position	–	–	₱–	₱–	₱–	₱5,000	₱–	₱–	₱–	₱4,809,983	₱ 3,760,920	₱30,452,965	₱39,028,868

Financial Risk
The Company is exposed to financial risk through its financial assets and financial 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.

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

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 for the components of the statement of financial position, net of impairment losses.

	2017	2016
AFS financial assets (Note 7)**:**		
Government debt securities		
Local currency	**₱135,521,511**	₱68,003,310
Private debt securities		
Foreign currency	**62,200,738**	78,420,284
Cash and cash equivalents (Note 4)	**19,187,951**	60,166,991
Short-term investments (Note 5)	**814,433**	814,433
Insurance receivables (Note 6):		
Premiums receivable	**23,886,837**	21,733,289
Premium due from ceding company –treaty	**4,715,107**	3,911,044
Reinsurance recoverable on paid losses:		
Foreign treaty	**103,947,526**	43,694,795
Local facultative	**810,535**	579,838
Loss reserve withheld by ceding company	**3,279,022**	3,279,022
Loans and receivables (Note 7):		
Long-term commercial papers	**35,280,000**	82,530,000
Accounts receivable	**1,685,658**	744,642
Notes receivable	**1,200,555**	2,077,658
Security fund	**35,446**	35,446
Accrued income	**5,376,324**	3,470,100
	₱397,941,643	₱369,460,852

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**	**Total**
AFS financial assets (Note 7)**:**				
Government debt securities				
Local currency	**₱135,521,511**	**₱–**	**₱–**	**₱135,521,511**
Private debt securities				
Foreign currency	–	**62,200,738**	–	**62,200,738**
Cash and cash equivalents*	**19,187,951**	–	–	**19,187,951**
Short term investments	**814,433**	–	–	**814,433**
Insurance receivables:				
Premium receivable	**11,148,494**	–	**12,738,343**	**23,886,837**
Premium due from ceding companies - treaty	**4,715,107**	–	–	**4,715,107**
Reinsurance recoverable on paid losses:				
Foreign treaty	**103,947,526**	–	–	**103,947,526**
Local facultative	**810,535**	–	–	**810,535**
Loss reserve withheld by ceding company	**3,279,022**	–	–	**3,279,022**
Loans and receivables (Note 7)**:**				
Long-term commercial papers	**35,280,000**	–	–	**35,280,000**
Accounts receivable	**1,685,658**	–	–	**1,685,658**
Notes receivable	**1,200,555**	–	–	**1,200,555**
Security fund	**35,446**	–	–	**35,446**
Accrued income (Note 7)	**5,376,324**	–	–	**5,376,324**
	₱320,080,139	**₱62,200,738**	**₱15,660,766**	**₱397,941,643**

**Excluding cash on hand*

	2016			
	Neither past due nor impaired			
	High grade	Medium grade	Past due but not impaired	Total
AFS financial assets:				
Government debt securities				
Local currency	₱68,003,310	₱–	₱–	₱68,003,310
Private debt securities				
Foreign currency	–	78,420,284	–	78,420,284
Cash and cash equivalents*	60,166,991	–	–	60,166,991
Short term investments	814,433	–	–	814,433
Insurance receivables:				
Premium receivable	9,853,525	–	11,879,764	21,733,289
Premium due from ceding companies - treaty	3,911,044	–	–	3,911,044
Reinsurance recoverable on paid losses:				
Foreign treaty	43,694,795	–	–	43,694,795
Local facultative	579,838	–	–	579,838
Loss reserve withheld by ceding company	3,279,022	–	–	3,279,022
Loans and receivables:				
Long-term commercial papers	82,530,000	–	–	82,530,000
Accounts receivable	744,642	–	–	744,642
Notes receivable	2,077,658	–	–	2,077,658
Security fund	35,446	–	–	35,446
Accrued income	3,470,100	–	–	3,470,100
	₱277,907,301	₱78,420,284	₱13,133,267	₱369,460,852

**Excluding cash on hand*

The credit quality was determined as follows:

a) *Cash and cash equivalents and short-term investments and related accrued income*
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 who possess strong to very strong capacity to meet its obligations. Medium grade is given to borrowers and counterparties who possess above 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 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.

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 while the unquoted securities are classified as medium grade.

e) Mutual Funds
Investments in mutual funds are classified as high grade.

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 inability to generate cash inflows as anticipated.

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

The tables below analyze financial assets and financial liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting date to their contractual maturities or expected repayment dates.

	2017				
	Up to a year	**1-3 years**	**Over 3 years**	**No term**	**Total**
Cash and cash equivalents	**₱19,187,953**	**₱–**	**₱–**	**₱–**	**₱19,187,953**
Short-term investments	**814,433**	–	–	–	**814,433**
Insurance receivables - net	**136,639,027**	–	–	–	**136,639,027**
AFS financial assets	–	**19,404,737**	**176,732,559**	**497,615,582**	**693,752,878**
Investment in Mutual Funds	–	–	–	**12,995,431**	**12,995,431**
Loans and receivables	**2,220,941**	**588,127**	**35,357,145**	**35,446**	**38,201,659**
Accrued income	**5,376,324**	–	–	–	**5,376,324**
Reinsurance recoverable on unpaid losses	**47,545,516**	–	–	–	**47,545,516**
Total financial assets	**₱211,784,194**	**₱19,992,864**	**₱212,089,704**	**₱510,646,459**	**₱954,513,221**
Provision for claims reported and loss adjustment expenses	**₱86,574,384**	**₱–**	**₱–**	**₱–**	**₱86,574,384**
Insurance payables	**16,968,293**	–	–	–	**16,968,293**
Accounts payable, accrued expenses and other liabilities	**35,951,775**	–	–	–	**35,951,775**
Total financial liabilities	**₱139,494,452**	**₱-**	**₱–**	**₱–**	**₱139,494,452**

**All commitments are either due within one year or are payable on demand*
**Excluding cash on hand*

	2016				
	Up to a year	1-3 years	Over 3 years	No term	Total
Cash and cash equivalents	₱60,166,991	₱–	₱–	₱–	₱60,166,991
Short-term investments	814,433	–	–	–	814,433
Insurance receivables – net	73,197,988	–	–	–	73,197,988
AFS financial assets	–	17,684,559	128,739,035	372,264,869	518,688,463
Investment in Mutual Funds	–	–	–	11,353,758	11,353,758
Loans and receivables	20,744,642	–	64,607,658	35,446	85,387,746
Accrued income	3,470,100	–	–	–	3,470,100
Reinsurance recoverable on unpaid losses	149,186,540	–	–	–	149,186,540
Total financial assets	₱307,580,694	₱17,684,559	₱193,346,693	₱383,654,073	₱902,266,019
Provision for claims reported and loss adjustment expenses	₱180,266,342	₱–	₱–	₱–	₱180,266,342
Insurance payables	–	43,595	–	–	43,595
Accounts payable, accrued expenses and other liabilities	53,920,526	–	–	–	53,920,526
Total financial liabilities	₱234,186,868	₱43,595	₱–	₱–	₱234,230,463

**All commitments are either due within one year or are payable on demand*
**Excluding cash on hand*

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 maintains United States (US) Dollar-denominated cash deposits and invests in US Dollar-denominated bonds.

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	**$1,152,000**	**₱57,519,360**	$1,526,220	₱78,420,284

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 income before income tax.

		Impact on income before tax Increase (decrease)	
Currency	**Change in rate**	**2017**	2016
US Dollar	+5%	**₱2,875,565**	₱4,206,918
	–5%	**(2,875,565)**	(4,206,918)

b) *Interest rate risk*
Interest rate risk is the risk that the value/future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's fixed rate investments in particular are exposed to such risk.

The following table sets out the Company's financial instruments exposed to interest rate risk by maturity:

		2017 Maturity				
	Interest rate	**Within a year**	**More than 1 to 3 years**	**More than 3 to 5 years**	**Over 5 years**	**Total**
Cash and cash equivalents	**0.8% to 1.4%**	**₱19,264,051**	**₱–**	**₱–**	**₱–**	**₱19,264,051**
Short-term investments	**0.9% to 1.5%**	**814,433**	**–**	**–**	**–**	**814,433**
AFS debt securities						
Government debt securities	**4.4% to 9.1%**	**–**	**5,535,579**	**21,066,003**	**108,919,929**	**135,521,511**
Private debt securities	**3.4% to 9.5%**	**–**	**15,454,112**	**36,552,019**	**10,194,607**	**62,200,738**
Long-term commercial papers	**4.4% to 8.0%**	**–**	**–**	**22,900,000**	**12,380,000**	**35,280,000**
Notes receivables	**8.0% to 8.5%**	**564,523**	**588,127**	**47,905**	**–**	**1,200,555**
		₱20,643,007	**₱21,577,818**	**₱80,565,927**	**₱131,494,536**	**₱254,281,288**

		2016				
		Maturity				
	Interest rate	Within a year	More than 1 to 3 years	More than 3 to 5 years	Over 5 years	Total
Cash and cash equivalents	0.8% to 1.4%	₱60,243,091	₱–	₱–	₱–	₱60,243,091
Short-term investments	0.9% to 1.5%	814,433	–	–	–	814,433
AFS debt securities						
Government debt securities	4.4% to 9.1%	–	5,663,077	56,828,524	5,511,709	68,003,310
Private debt securities	3.4% to 9.5%	17,684,559	14,084,469	36,294,481	10,356,775	78,420,284
Long-term commercial papers	4.4% to 8.0%	20,000,000	–	62,530,000	–	82,530,000
Notes receivables	8.0% to 8.5%	666,308	1,411,350	–	–	2,077,658
		₱99,408,391	₱21,158,896	₱155,653,005	₱15,868,484	₱292,088,776

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the AFS debt securities, with all other variables held constant, of the Company's equity:

	Change in basis points	Impact on Equity Increase (decrease) 2017	2016
Philippine Peso	+100	**₱9,851,980**	₱7,456,146
US Dollar	+100	**50,603**	62,049
Philippine Peso	-100	**10,676,102**	8,055,839
US Dollar	-100	**2,850,592**	3,465,265

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):

	2017		2016	
Currency	**Change in basis points**	**Impact on Equity Increase (decrease)**	Change in basis points	Impact on Equity Increase (decrease)
Philippine Peso	**+15%**	**₱47,072,844**	+15%	₱42,786,403
	-15%	**(47,072,844)**	-15%	(42,786,403)

The equity impact is arrived at using the reasonably possible change of PSEi and the specific adjusted beta of each stock 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.

27. Financial Assets and Liabilities

The table below presents a comparison by category of carrying amounts and estimated fair values of all 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:				
Listed equity securities:				
Common shares	**₱484,180,629**	**₱484,180,629**	₱360,214,869	₱360,214,869
Preferred shares	**5,850,000**	**5,850,000**	6,050,000	6,050,000
Private debt securities				
Foreign currency	**62,200,738**	**62,200,738**	78,420,284	78,420,284
Government debt securities				
Local currency	**135,521,511**	**135,521,511**	68,003,310	68,003,310
Unquoted equity securities	**6,000,000**	**6,000,000**	6,000,000	6,000,000
Mutual Fund	**12,995,431**	**12,995,431**	11,353,758	11,353,758
Loans and receivables:				
Cash and cash equivalents	**19,264,051**	**19,264,051**	60,243,091	60,243,091
Short-term investments	**814,433**	**814,433**	814,433	814,433
Insurance receivables:				
Premiums receivable	**₱23,886,837**	**₱23,866,837**	₱21,733,289	₱21,733,289
Due from ceding companies	**4,715,107**	**4,715,107**	3,911,044	3,911,044
Reinsurance recoverable on paid losses:				
Foreign treaty	**103,947,526**	**103,947,526**	43,694,795	43,694,795
Local facultative	**810,535**	**810,535**	579,838	579,838
Loss withheld by ceding company	**3,279,022**	**3,279,022**	3,279,022	3,279,022
Long-term commercial papers	**35,280,000**	**35,280,000**	82,530,000	82,530,000
Accounts receivable	**1,685,658**	**1,685,658**	744,642	744,642
Notes receivable	**1,200,555**	**1,200,555**	2,077,658	2,077,658
Due from a related party				
Security fund	**35,446**	**35,446**	35,446	35,446
Accrued income	**5,376,324**	**5,376,324**	3,470,100	3,470,100
Total financial assets	**₱907,043,803**	**₱907,043,803**	₱753,155,579	₱753,155,579

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Other financial liabilities:				
Insurance payables				
Due to reinsurers:				
Treaty	**₱8,398,021**	**₱8,398,021**	₱–	₱–
Facultative	–	–	–	–
Premium reserve withheld for reinsurers	**8,570,272**	**8,570,272**	43,595	43,595
Accounts payable, accrued expenses and other liabilities:				
Accounts payable	**13,987,384**	**13,987,384**	30,547,667	30,547,667
Accrued expenses	**11,905,982**	**11,905,982**	9,235,340	9,235,340
Due to MICO	**1,252,332**	**1,252,332**	6,643,881	6,643,881
Security deposit	**949,801**	**949,801**	924,915	924,915
Taxes payable	**3,011,795**	**3,011,795**	2,928,291	2,928,291
Total financial liabilities	**₱48,075,587**	**₱48,075,587**	₱50,323,689	₱50,323,689

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

Cash and cash equivalents, short-term investments, insurance receivables, short-term loans and receivables, accrued income, insurance payables, accounts payable, accrued expenses and other liabilities – 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 values as follows:

	2017			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets measured at fair value				
AFS financial assets:				
Listed equity securities:				
Common shares	**₱484,180,629**	**₱–**	**₱–**	**₱484,180,629**
Preferred shares	**5,850,000**	**–**	**–**	**5,850,000**
Mutual Funds	**–**	**12,995,431**	**–**	**12,995,431**
Private debt securities				
Foreign currency	**62,200,738**	–	–	**62,200,738**
Government debt securities				
Local currency	**135,521,511**	–	–	**135,521,511**
	687,752,878	**12,995,431**	–	**700,748,309**
Assets for which fair values are disclosed:				
Loans and receivables				
Long-term commercial papers	**–**	**35,280,000**	**–**	**35,280,000**
	₱686,167,917	**₱48,275,431**	**₱–**	**₱734,443,348**

	2016			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value				
AFS financial assets:				
Listed equity securities:				
Common shares	₱360,214,869	₱–	₱–	₱360,214,869
Preferred shares	6,050,000	–	–	6,050,000
Mutual Funds	–	11,353,758	–	11,353,758
Private debt securities				
Foreign currency	78,420,284	–	–	78,420,284

(Forward)

Government debt securities				
Local currency	68,003,310	–	–	68,003,310
	512,688,463	11,353,758	–	524,042,221
Assets for which fair values are disclosed:				
Loans and receivables				
Long-term commercial papers	–	82,530,000	–	82,530,000
	₱512,688,463	₱93,883,758	₱–	₱606,572,221

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

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

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

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.

28. **Leases**

Operating leases - Company as lessor
The Company entered into commercial property leases on its investment property. These leases generally have terms of one year, renewable every year.

Operating leases - Company as lessee
The Company entered into various property leases with various lessors. These leases generally have terms of one year, renewable every year.