Liberty Insurance Corporation

Financial Statements
December 31, 2017 and 2016

and

Independent Auditors' Report

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Liberty Insurance Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Liberty Insurance Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2017 and 2016, and the 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 (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). 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 PFRS, 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 PSA 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 PSA, 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 No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Liberty Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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PTR No. 6621265, January 9, 2018, Makati City

April 4, 2018

LIBERTY INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016 (As Restated)	January 1, 2016 (As Restated)
ASSETS			
Cash and Cash Equivalents (Notes 4 and 23)	**₱72,303,993**	₱54,126,472	₱48,947,292
Short-term Investments (Note 5 and 23)	**75,221,137**	32,409,760	52,164,940
Insurance Receivables - net (Notes 6 and 23)	**104,706,615**	106,803,999	90,410,479
Financial Assets (Notes 7 and 23)			
Financial asset at fair value through profit and loss	**29,856,079**	29,858,244	18,558,336
Available-for-sale financial assets	**47,826,535**	51,463,691	55,754,848
Held-to-maturity investments	**137,663,787**	93,062,742	87,709,762
Loans and receivables	**7,385,722**	9,685,640	7,258,665
Reinsurance Assets (Notes 8 and 13)	**30,112,450**	26,542,645	19,322,782
Deferred Acquisition Costs (Note 9)	**34,530,673**	26,010,913	21,943,930
Investment Properties (Note 10)	**135,873,128**	135,637,388	135,637,388
Property and Equipment - net (Note 11)	**15,772,701**	15,454,429	11,626,013
Pension Asset (Note 21)	**8,078,133**	–	–
Other Assets (Note 12)	**7,485,559**	9,776,980	4,458,330
	₱706,816,512	₱590,832,903	₱553,792,765
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 13 and 23)	**₱186,319,469**	₱140,631,653	₱126,052,839
Insurance payables (Notes 14 and 23)	**14,395,650**	12,402,452	7,860,271
Accounts payable and other liabilities (Notes 15 and 23)	**31,333,145**	20,364,369	41,825,229
Deferred reinsurance commissions (Note 9)	**7,920,766**	6,233,626	4,921,737
Net pension liability (Note 21)	–	5,479,841	1,519,185
Deferred tax liabilities - net (Note 22)	**3,040,686**	883,856	2,017,694
	243,009,716	185,995,797	184,196,955
Equity			
Capital stock (Note 16)	**270,957,000**	270,957,000	270,957,000
Additional paid-in capital	**2,239**	2,239	2,239
Subscribed capital (Note 16)	**10,729,600**	10,729,600	–
Other equity reserves (Notes 7 and 21)	**(10,534,057)**	(15,587,526)	(9,467,196)
Retained earnings	**192,652,014**	138,735,793	108,103,767
	463,806,796	404,837,106	369,595,810
	₱706,816,512	₱590,832,903	₱553,792,765

See accompanying Notes to Financial Statements.

LIBERTY INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016 (As Restated)
Gross earned premiums on insurance contracts	**₱318,021,439**	₱247,375,750
Reinsurers' share of gross earned premiums on insurance contracts	**(91,098,283)**	(78,478,208)
Net insurance earned premiums (Note 17)	**226,923,156**	168,897,542
Other underwriting income (Note 18)	**25,313,148**	23,136,591
Investment and other income (Note 18)	**27,148,195**	22,111,097
Commission income (Note 9)	**14,868,882**	10,375,491
Other revenue	**67,330,225**	55,623,179
Total Revenue	**294,253,381**	224,520,721
Gross insurance contract benefits and claims paid	**60,835,049**	73,774,733
Reinsurers' share of gross insurance contract benefits and claims paid	**(7,005,472)**	(26,910,782)
Gross change in insurance contract liabilities	**3,867,656**	(122,285)
Reinsurers' share of gross change in insurance contract liabilities	**1,651,232**	(2,982,467)
Net insurance benefits and claims (Notes 13, 19 and 23)	**59,348,465**	43,759,199
Commission expense (Note 9)	**72,656,892**	56,629,661
Operating expenses (Notes 20 and 21)	**89,400,511**	79,086,747
Impairment loss on available-for-sale financial assets (Note 7)	**1,813,593**	6,141,998
Fair value loss (gain) on financial asset through profit and loss (Note 7)	**2,165**	(799,908)
Others	**1,641,772**	1,026,334
Other expenses	**165,514,933**	142,084,832
Total Benefits, Claims and Other Expenses	**224,863,398**	185,844,031
Income before income tax	**69,389,983**	38,676,690
Current	**12,058,061**	5,772,492
Final	**1,447,287**	1,093,023
Deferred	**1,968,414**	1,179,149
Provision for income tax (Note 22)	**15,473,762**	8,044,664
NET INCOME (Note 25)	**53,916,221**	30,632,026
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be reclassified to profit or loss		
Actuarial gain (loss) on defined benefit plan (Note 21)	**628,053**	(7,709,952)
Income tax relating to actuarial loss (gain)	**(188,416)**	2,312,987
Item that will be reclassified to profit or loss		
Changes in fair value of available-for-sale financial assets (Note 7)	**17,920,612**	5,748,055
Realized gain transferred to profit or loss (Note 7)	**(15,120,373)**	(12,613,418)
Impairment losses (Note 7)	**1,813,593**	6,141,998
	5,053,469	(6,120,330)
TOTAL COMPREHENSIVE INCOME	**₱58,569,980**	₱24,511,696

See accompanying Notes to Financial Statements.

LIBERTY INSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

	Capital Stock (Note 16)	Additional Paid-in Capital	Subscribed Capital (Note 16)	Other Equity Reserves: Revaluation Reserve on Available-for-sale Financial Assets (Note 7)	Other Equity Reserves: Actuarial Loss on Defined Benefit Plan (Note 21)	Retained Earnings (Note 2)	Total
BALANCE AT JANUARY 1, 2016, as previously presented	**₱270,957,000**	**₱2,239**	**₱–**	**(₱4,994,289)**	**(₱4,207,407)**	**₱108,601,326**	**₱370,358,869**
Retrospective adjustment	–	–	–	(265,500)	–	(497,559)	(763,059)
BALANCE AT JANUARY 1, 2016, as restated	**270,957,000**	**2,239**	**–**	**(5,259,789)**	**(4,207,407)**	**108,103,767**	**369,595,810**
Total comprehensive income (loss)	–	–	–	(723,365)	(5,396,965)	30,632,026	24,511,696
Subscribed capital (Note 16)	–	–	10,729,600	–	–	–	10,729,600
BALANCE AT DECEMBER 31, 2016, as restated	**₱270,957,000**	**₱2,239**	**₱10,729,600**	**(₱5,983,154)**	**(₱9,604,372)**	**₱138,735,793**	**₱404,837,106**
BALANCE AT DECEMBER 31, 2016, as previously presented	**₱270,957,000**	**₱2,239**	**₱10,729,600**	**(₱4,838,654)**	**(₱9,604,372)**	**₱138,523,749**	**₱405,769,562**
Retrospective adjustment	–	–	–	**(1,144,500)**	–	**212,044**	**(932,456)**
BALANCE AT DECEMBER 31, 2016, as restated	**270,957,000**	**2,239**	**10,729,600**	**(5,983,154)**	**(9,604,372)**	**138,735,793**	**404,837,106**
Total comprehensive income	–	–	–	**4,613,832**	**439,637**	**53,916,221**	**58,569,980**
BALANCE AT DECEMBER 31, 2017	**₱270,957,000**	**₱2,239**	**₱10,729,600**	**(₱1,369,322)**	**(₱9,164,735)**	**₱192,652,014**	**₱463,806,796**

See accompanying Notes to Financial Statements.

LIBERTY INSURANCE COPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱69,389,983**	₱38,676,690
Adjustments for:		
Depreciation and amortization (Notes 11 and 20)	**3,535,680**	3,692,442
Net change in retirement benefit liability	**(12,929,921)**	(3,749,296)
Impairment loss on available-for-sale financial assets (Note 7)	**1,813,593**	6,141,998
Fair value loss (gain) on financial assets at fair value through profit or loss (Note 7)	**2,165**	(799,908)
Realized profits on:		
Available-for-sale financial assets (Note 18)	**(15,120,373)**	(12,613,418)
Investment property (Note 18)	**(525,740)**	–
Property and equipment (Note 18)	**(132,277)**	(630,000)
Interest income (Note 18)	**(9,250,592)**	(6,099,567)
Dividend income (Note 18)	**(2,119,213)**	(2,768,112)
Operating income before working capital changes	**34,663,305**	21,850,829
Decrease (increase) in:		
Insurance receivables	**2,097,384**	(16,393,520)
Reinsurance assets	**(3,569,805)**	(7,219,861)
Loans and receivables	**5,609,520**	(2,052,166)
Deferred acquisition costs	**(8,519,760)**	(4,066,983)
Other assets	**2,291,421**	(5,318,651)
Increase (decrease) in:		
Insurance contract liabilities	**45,687,816**	14,578,814
Insurance payables	**1,993,198**	4,542,181
Accounts payable and other liabilities	**5,259,582**	(24,974,370)
Deferred reinsurance commissions	**1,687,140**	1,311,889
Net cash from (used in) operations	**87,199,801**	(17,741,838)
Income tax paid	**(7,796,155)**	(3,352,008)
Net cash from (used in) operating activities	**79,403,646**	(21,093,846)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions in:		
Available-for-sale financial assets (Note 7)	**(119,094,827)**	(174,723,616)
Short-term investment	**(75,221,137)**	(32,409,760)
Held-to-maturity investments (Note 7)	**(56,055,713)**	(12,000,000)
Property and equipment (Note 11)	**(4,038,675)**	(7,578,027)
Investment property (Note 10)	**(310,000)**	–
Financial asset at fair value through profit and loss	**–**	(10,500,000)
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 7)	**140,652,595**	184,762,828
Short-term investments	**32,409,760**	52,164,940
Held-to-maturity investments (Note 7)	**11,000,000**	6,000,000
Investment property	**600,000**	–
Property and equipment (Note 11)	**317,000**	687,169
Interest received	**6,538,383**	6,592,424
Dividends received	**1,976,488**	2,547,468
Net cash from (used in) investing activities	**(61,226,125)**	15,543,426

(Forward)

	Years Ended December 31	
	2017	2016
CASH FLOW FROM FINANCING ACTIVITY		
Proceeds from subscribed capital (Note 16)	**₱–**	₱10,729,600
NET INCREASE IN CASH AND CASH EQUIVALENTS	**18,177,521**	5,179,180
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**54,126,472**	48,947,292
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱72,303,993**	₱54,126,472

See accompanying Notes to Financial Statements.

LIBERTY INSURANCE COPORATION
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Liberty Insurance Corporation (the "Company") was incorporated in the Philippines on December 11, 1953. On November 10, 2003, the Company renewed its registration with SEC to extend its corporate life for another 50 years.

The Company is a member of Jose Cojuangco and Sons Group of Companies.

The Company is engaged in the business of nonlife insurance which includes fire, motor car, marine insurance, personal accident insurance and miscellaneous casualty that are permitted to be sold by a nonlife insurance company in the Philippines.

The registered office address of the Company is 3rd Floor, Jose Cojuangco and Sons Building, 119 Dela Rosa corner Carlos Palanca Streets, Legaspi Village, Makati City.

Authorization for the Issuance of the Financial Statements
The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on April 4, 2018.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis, except for securities at fair value through profit or loss (FVPL) and 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 unit, 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 statement, or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2016 is presented in the financial statements due to retrospective restatement of an accounting policy.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to existing PFRS and Philippine Accounting Standards (PAS) effective January 1, 2017. Adoption of these pronouncements did not have any significant impact to the Company's financial position and performance:

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities* - Clarification of the Scope of the Standard (Part of Annual Improvements to PFRS 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows* - Disclosure Initiative
- Amendments to PAS 12, *Income Taxes* - Recognition of Deferred Tax Assets for Unrealized Losses

Restatements
The Company restated its 2016 and 2015 financial statements due to the new valuation standards for nonlife policy reserves which was adopted by the Company retrospectively in accordance with Insurance Commission (IC) Circular Letter (CL) No. 2016-67, *Valuation Standards for Nonlife Insurance Policy Reserves*. This regulatory requirement became effective on January 1, 2017 pursuant to IC CL No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves, and Amended Risk-Based Capital (RBC2) Framework*.

The adoption of IC CL No. 2016-67 introduced changes in the valuation method for incurred but not reported (IBNR) reserve. Under the new valuation standards, claims liabilities for both direct and assumed treaty and reinsurance businesses shall be calculated as the sum of outstanding claims reserves, claims handling expense and IBNR claims, with computed Margin for Adverse Deviation (MfAD). IBNR claims shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, expected loss ratio approach and Bornhuetter-Ferguson method. Provision for claims handling expense covering the estimated expenses of settling all outstanding claims, both reported and unreported, as of valuation date shall also be computed. These valuations are to be performed by an actuarial expert duly accredited by the IC.

Prior to the adoption of the new valuation standards, the primary technique adopted by management in estimating the cost of IBNR claims is that of using past settlement trends to predict future claims settlement trends. At the each reporting date, prior year claims estimates are assessed for adequacy and any changes made are charged to provision.

The net effects of all transition adjustments are charged to retained earnings on the transition date. As a result of the aforementioned change in the valuation method on IBNR, the Company restated its 2016 and 2015 financial statements as fully described below:

Statement of Financial Position as at December 31, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
Reinsurance assets	₱25,351,321	₱1,191,324	₱26,542,645
Insurance contract liabilities	138,108,163	2,523,490	140,631,653
Deferred tax liabilities - net	1,283,566	(399,710)	883,856
Retained earnings*	138,523,749	(212,044)	138,735,793

**Refer to Note 7 for other related adjustments.*

Statement of Financial Position as at January 1, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
Reinsurance assets	₱19,297,774	₱25,008	₱19,322,782
Insurance contract liabilities	124,937,663	1,115,176	126,052,839
Deferred tax liabilities - net	2,344,801	(327,112)	2,017,689
Retained earnings*	108,601,326	(497,559)	108,103,767

**Refer to Note 7 for other related adjustments.*

Statement of Comprehensive Income for the year ended December 31, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
Gross change in insurance contract liabilities	₱1,530,599	(₱1,408,314)	₱122,285
Reinsurers' share of gross change in insurance contract liabilities	1,816,151	1,166,316	2,982,467
Provision for income tax	8,117,262	(72,598)	8,044,664

Impact on the Statement of Cash Flows for the year ended December 31, 2016
Prior period adjustments have no impact on the statement of cash flows for the year ended December 31, 2016.

Standards Issued but Not yet Effective
The Company will adopt, where applicable, the following standards, amendments to existing standards and interpretations when these 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 15, *Revenue from Contracts with Customers*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRS 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property* - Transfers of Investment Property

- 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 earlier of application of the forthcoming insurance contracts standard or 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 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 Company is currently assessing the impact of adopting this standard.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9 - Prepayment Features with Negative Compensation
- Amendments to PAS 28 - Long-term Interests in Associates and Joint Ventures
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

- 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 this standard and plans to adopt the new standard on the required effective date.

Deferred effectivity

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

The Company continues to assess the impact of the above now and amended accounting standards and interpretations effective subsequent to 2017 on the Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

Fair Value

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.

Fair value hierarchy

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

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

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial assets
The fair value for financial instruments traded in active markets at the end of the reporting period is based on their quoted market price or dealer price quotations (price between the bid-ask range), without any deduction for transaction costs. When current market 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.

Non-financial assets
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.

<u>Cash and Cash Equivalents</u>
Cash includes cash on hand and in banks. Cash in banks earns interest at prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturity of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

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

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

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

<u>Financial Instruments</u>
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. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, held-to-maturity (HTM) investments and loans and receivables. The Company classifies its financial liabilities into 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.

Day 1 difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an unobservable data is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Financial assets at FVPL
Financial assets and financial liabilities at FVPL include financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition as at FVPL.

Financial assets and liabilities are classified as held-for-trading if they are acquired for purposes of selling and repurchasing in the near term.

Financial assets and liabilities at FVPL are recorded Company statement of financial position at fair value. Subsequent changes in fair value are recognized in the Company statement of income.

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

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in 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 financial assets are reported as "Revaluation reserve on AFS financial assets" in other comprehensive income (OCI). The losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as realized gains or losses in profit or loss.

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

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company's management has a positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in profit or loss.

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 statement of financial position captions "Cash and cash equivalents," "Short term investments," "Insurance receivables" and "Loans and receivables."

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

Other financial liabilities
Issued financial instruments or their components, which are not designated 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.

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

This accounting policy applies primarily to the Company's "Insurance payables" and "Accounts payable and other liabilities" that meet the above definition (other than liabilities covered by other accounting standards, such as pension liability and income tax payable). The Company's insurance obligation mainly pertains to "Insurance contract liabilities."

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

Impairment of Financial Assets
The Company assesses at each reporting date 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.

Financial assets carried at amortized cost
For financial assets 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. f 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 an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. 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 carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to 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.

Time value is generally not considered when the effect of discounting is not material. 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.

AFS financial assets carried at fair value
For equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of an investment below its cost or where other objective evidence of impairment exists. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from OCI and recognized in the profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized in OCI.

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

Derecognition of Financial Assets and Liabilities
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

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

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

Reinsurance
The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets include balances recoverable from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurers. The impairment loss is recorded in profit or loss.

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

The Company also assumes reinsurance risk in the normal course of business 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.

Deferred Acquisition Costs (DAC) and Deferred Reinsurance Commissions (DRC)
Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged against income using the 24th method. The unamortized acquisition costs are shown in the assets section of the statement of financial position as "Deferred acquisition costs." Reinsurance commissions are deferred and shown in the liabilities section of the statement of financial position as "Deferred reinsurance commissions," subject to the same amortization method as the related acquisition costs.

Investment Properties
Properties held for long-term rental yields or for capital appreciation, or for both, are classified as investment properties. These properties are initially measured at cost, which includes transaction costs, but excludes day to day servicing costs. Subsequently, at each reporting date, such properties are carried at cost less impairment losses, if any. The Company's investment properties pertain to various parcels of land.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. 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.

For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use.

Investment property is derecognized when it has been disposed of, or when permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in the profit or loss in the year of derecognition.

Property and Equipment
Property and equipment are stated at cost, less accumulated depreciation and amortization and any allowance for impairment in value. The initial cost of property and equipment comprises its purchase price 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 expenses are charged to profit or loss during the reporting period in which they are incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the properties or the term of the lease if shorter in case of leasehold improvements. The identified estimated useful lives used by the Company follow:

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

**10 years or lease term, whichever is shorter*

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

Other Assets

Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount paid in cash. Subsequently, these are charged to profit or loss as they are consumed in the operations or expire with the passage of time.

Creditable withholding taxes

Creditable withholding taxes represent amounts withheld by the Company's counterparties in relation to the revenue earned. Subsequently, these amounts are applied against the Company's income tax due. Any amount of excess of currently due income taxes over creditable withholding taxes is reported as "Income tax payable" under "Accounts payable and other liabilities."

Value-added tax (VAT)

Revenue, expenses and assets are recognized net of the amount of VAT except:

- where the VAT incurred on the purchase of an asset or service is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of tax recoverable from the taxing authority is disclosed in the statement of financial position as "Input VAT" under "Other assets." Any amount of net tax payable is included in "Output VAT" under "Accounts payable and other liabilities."

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 fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

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 profit or loss. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Product Classification

Insurance contracts

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired.

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. The change in the provision for unearned premiums is taken to profit or loss in the order that revenue is recognised over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Provision for claims reported by policyholders and IBNR losses

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims. Therefore, the ultimate cost of which cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money and includes provision for claims reported and IBNR claims.

The provision for claims reported by policyholders is based on the independent adjusters' report on the individual claims and the provision for IBNR was estimated using Chain Ladder method or loss development triangle method, which employs cross tabulation of data usually showing financial quantities with respect to periods of exposures (e.g., date of loss), each evaluated at regular intervals. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract expires, is discharged, or cancelled.

Equity

Capital stock

Capital stock is measured at par value for all shares issued. When the Company issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC).

Subscribed capital

Subscribed capital is the portion of the authorized capital stock that has been subscribed and still unissued. The subscribed capital stock is reported net of the subscription receivable. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Retained earnings

Retained earnings represent the cumulative balance of net income or loss of the Company and other restatement adjustments, net of any dividend distribution.

Other Comprehensive Income

Other comprehensive income comprises of items of income and expense that are not recognized in profit or loss for the year in accordance with relevant PFRS. Other comprehensive income of the Company pertains to actuarial remeasurements adjustments on defined benefit plan and mark-to-market revaluation reserve on AFS financial assets.

Pension Cost

The Company has a funded, non-contributory retirement plan that is administered by a trustee covering its regular employees. Retirement cost is actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement cost comprises the following:

(a) Service costs;
(b) Net interest on the net defined benefit liability or asset;
(c) Remeasurements of net defined benefit liability or asset.

Service costs include current service cost, past service cost and gains or losses on nonroutine settlements and are recognized as expense in profit or loss. Past service cost is recognized when a plan amendment or curtailment occurs. These costs are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI under "Actuarial gain (loss) on defined benefit plan" 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. 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.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of: (a) the date when the entity can no longer withdraw the offer of those benefits; and (b) the date when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefit, short-term employee benefit, or other long-term employee benefit.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when this is accrued to the employees. The undiscounted liabilities for leaves expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Short-term Employee Benefits
Short-term employee benefits include items such as salaries and wages, social security contributions and nonmonetary benefits, if expected to be settled wholly within twelve months after the end of the reporting period in which the employees rendered the related services. Short-term employee benefits are recognized as expense as incurred. When an employee has rendered service to the Company during the reporting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability (accrued expense), after deducting any amount already paid.

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

Premiums
Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at reporting date is accounted for as provision for unearned premiums and is presented under "Insurance contract liabilities" in the liabilities section of the statement of

financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums shown under "Reinsurance assets" in the assets section of the statement of financial position. The net changes in these accounts between reporting dates are charged against or credited to income for the year.

Commission income
Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relate to the unexpired periods of the policies at each reporting dates are accounted for as "Deferred reinsurance commissions" and presented in the liabilities section of the statement of financial position.

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

Dividend Income
Dividend income is recognized when the Company's right to receive the payment is established.

Other underwriting income
Other underwriting income from other sources, if any, is recognized when earned.

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

Commission expense
Commissions 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 costs" in the assets section of the statement of financial position.

Operating and other expenses
Operating and other expenses are recognized in profit or loss 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;
d. There is a substantial change to the asset.

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

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

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

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

Income Tax
Income tax for the year consists of current and deferred tax. Income tax is determined in accordance with Philippine tax laws. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or OCI. Tax on these items is recognized in equity or OCI (as applicable).

Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted as at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused

tax credits from MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.
The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted as at the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are charged against or credited to operations for the period.

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

3. Significant Accounting Judgments and Estimates

Below are the estimates and judgments used in preparing the Company's financial statements. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities at the reporting date as well as affecting the reported income and expenses for the year. These estimates are based on management's best knowledge based on historical experiences for future expectations and judgment of information and financial data as at the date the financial statements are approved. Although these estimates are believed to be reasonable under the circumstances, the actual outcome may differ from these estimates, possibly significantly, in future periods when subject to changes.

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

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

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

Operating leases
The Company has entered into property leases for its operations. The Company has determined that the lessor retains all the significant risks and rewards of ownership of these properties which are being leased on operating leases.

Financial assets not quoted in an active market
The Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis. When the fair value of financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity securities, these financial assets are carried at cost, less any allowance for impairment losses.

Estimates
Estimation of provision for IBNR losses
For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the claims provision. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Nonlife insurance claims provisions are not discounted for the time value of money.

The main assumption 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, but can also be further analyzed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

The carrying value of total provision for outstanding provision for IBNR losses amounted to ₱5.72 million and ₱3.30 million as of December 31, 2017 and 2016, respectively, and ₱1.89 million as of January 1, 2016 (see Note 13).

Fair values of investment properties
The value of the parcels of land was arrived using the *Market Data Approach*. In this approach, the value of the land is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the difference between the subject property and actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject properties. The aggregate fair value of the Company's investment properties amounted to ₱392 million and ₱282 million as of December 31, 2017 and 2016 (see Note 10).

Impairment of financial assets
The Company determines that AFS equity investments are 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. This determination of what is significant or prolonged decline requires judgment. The Company treats “significant” generally as 20% or more or “prolonged” greater than 12 months. In addition, the Company evaluates other factors, including the normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, like changes in technology, and operational and financing cash flows.

The Company reviews its loans and receivables and HTM investments at each reporting date 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.

In addition to specific allowance against individually significant loans and receivables and HTM investments, the Company also makes a collective impairment assessment against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

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 doubtful accounts would increase recorded expenses and decrease net income.

The related balances of financial assets as of December 31 follow:

	2017	2016
Insurance receivables - net (Note 6)	**₱104,706,615**	₱106,803,999
Financial assets at FVPL (Note 7)	**29,856,079**	29,858,244
AFS financial assets (Note 7)	**47,826,535**	51,463,691
HTM investments (Note 7)	**137,663,787**	93,062,742
Loans and receivables (Note 7)	**7,385,722**	9,685,640
	₱327,438,738	₱290,874,316

The Company’s financial assets at FVPL and AFS financial assets as of January 1, 2016 amounted to ₱18.56 million and ₱55.75 million, respectively.

As of December 31, 2017 and 2016, allowance for impairment losses on the Company’s AFS equity securities amounted to ₱1.81 million and ₱6.14 million, respectively (see Note 7).

Estimated useful lives of property and equipment and investment properties
The Company reviews annually the estimated useful lives of property and equipment and investment properties, based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment and investment properties would increase recorded depreciation and amortization expense and decrease the related asset accounts.

As of December 31, 2017 and 2016, property and equipment amounted to ₱15.77 million and ₱15.45 million, respectively (see Note 11).

Impairment of nonfinancial assets
The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is estimated for an individual asset or, if it is not possible, for the cash-generating unit to which the asset belongs.

The Company assesses impairment on assets (property and equipment and investment properties) 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.

As of December 31, 2017, the carrying value of property and equipment and investment properties amounted to ₱15.77 million and ₱135.87 million, respectively. As of December 31, 2016, the carrying value of property and equipment and investment properties amounted to ₱15.45 million and ₱135.64 million, respectively (see Notes 10 and 11).

Pension and other employee benefits
The determination of the obligation and cost of pension is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, which include, among others, discount rate and salary increase rate, are described in Note 21. 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.

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.

The Company recognized gross deferred tax assets amounting to ₱13.67 million and ₱10.77 million as of December 31, 2017 and 2016, respectively, and ₱6.72 million as of January 1, 2016 (see Note 22).

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱15,992,837**	₱6,739,291
Cash in banks	**54,572,285**	46,168,619
Cash equivalents	**1,738,871**	1,218,562
	₱72,303,993	₱54,126,472

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are made for varying periods depending on the immediate cash requirements of the Company and earned interest with rates ranging from 0.75% to 0.875 % in 2017 and 0.25% to 1.25% in 2016.

In 2017 and 2016, interest earned on cash in banks and cash equivalents amounted to ₱0.24 million and ₱0.23 million, respectively (see Note 18).

5. Short-term Investments

Short-term investments are government securities and time deposits made for varying periods of more than three (3) months but less than one (1) year and earn interest at the respective short-term investment rates. Interest income earned on short-term investments amounted to ₱1.67 million and ₱0.61 million for the years ended December 31, 2017 and 2016, respectively (see Note 18) with interest rates ranging from 1.125% to 2.90% in 2017 and 0.2% to 1.25% in 2016.

6. Insurance Receivables - net

This account consists of:

	2017	2016
Premiums receivable	**₱81,597,218**	₱85,502,990
Reinsurance recoverable on paid losses	**12,956,327**	13,338,124
Due from ceding companies	**9,306,662**	7,116,477
Funds held by ceding companies	**1,059,191**	1,059,191
	104,919,398	107,016,782
Less allowance for doubtful accounts	**212,783**	212,783
	₱104,706,615	₱106,803,999

Premiums receivable represent premiums on written policies which are collectible within the Company's credit term.

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

Due from ceding companies pertains to premiums collectible from ceding companies with respect to assumed policies.

Funds held by ceding companies pertain to amounts withheld by ceding companies as collateral for possible reinsurance payments.

Reinsurance recoverable on paid losses, due from ceding companies and funds held by ceding companies are noninterest-bearing and are normally collected within the Company's agreed credit term.

The following tables show the aging information of insurance receivables:

December 31, 2017

	Less than 3 months	**3-6 months**	**6-12 months**	**More than 12 months**	**Total**
Premiums receivable	**₱30,042,375**	**₱27,628,142**	**₱22,837,437**	**₱1,089,264**	**₱81,597,218**
Reinsurance recoverable on paid losses	**506,370**	**368,964**	**2,587,629**	**9,493,364**	**12,956,327**
Due from ceding companies	**159,010**	**1,881,694**	**3,176,311**	**4,089,647**	**9,306,662**
Funds held by ceding companies	**–**	**–**	**–**	**1,059,191**	**1,059,191**
	₱30,707,755	**₱29,878,800**	**₱28,601,377**	**₱15,731,466**	**₱104,919,398**

December 31, 2016

	Less than 3 months	3-6 months	6-12 months	More than 12 months	Total
Premiums receivable	₱82,679,835	₱1,015,362	₱1,807,793	₱–	₱85,502,990
Reinsurance recoverable on paid losses	2,934,387	5,068,487	3,601,293	1,733,957	13,338,124
Due from ceding companies	2,134,943	1,209,801	2,490,767	1,280,966	7,116,477
Funds held by ceding companies	–	–	–	1,059,191	1,059,191
	₱87,749,165	₱7,293,650	₱7,899,853	₱4,074,114	₱107,016,782

The impairment assessment has been determined on an individual basis. There were no movements in the allowance for doubtful accounts in 2017 and 2016.

7. **Financial assets**

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

	2017	2016
Financial asset at fair value through profit and loss	**₱29,856,079**	₱29,858,244
AFS financial assets	**47,826,535**	51,463,691
HTM investments	**137,663,787**	93,062,742
Loans and receivables	**7,385,722**	9,685,640
	₱222,732,123	₱184,070,317

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

Reclassification adjustments were recognized in relation to the Company's investments in preference shares previously classified as AFS financial assets. Based on management's reassessment of its intention in holding these investments in preference shares, these investments are held for active trading warranting reclassification to financial assets at FVPL.

In accordance with PAS 39, *Financial Instruments Recognition and Measurement*, financial assets at FVPL and AFS financial assets are carried at fair value with mark-to-market valuation adjustments directly recognized in statement of income for financial assets at FVPL and statement of comprehensive income as part of other comprehensive income for AFS financial assets.

Restatements were recognized by management in the earliest period presented to reflect management's actual intention in those periods presented.

As a result of the aforementioned reclassification, the Company restated its 2016 and 2015 financial statements as fully described below:

Statement of Financial Position as at December 31, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
AFS financial assets	₱77,620,691	(₱26,157,000)	₱51,463,691
Financial asset at FVPL	3,701,244	26,157,000	29,858,244
Reserve for fluctuation on AFS financial assets	(4,838,654)	(1,144,500)	(5,983,154)
Retained earnings*	138,523,749	(212,044)	138,735,793

**Refer to Note 2 for other related adjustments.*

Statement of Financial Position as at January 1, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
AFS financial assets	₱70,532,848	(₱14,778,000)	₱55,754,848
Financial asset at FVPL	3,780,336	14,778,000	18,558,336
Reserve for fluctuation on AFS financial assets	(4,994,289)	(265,500)	(5,259,789)
Retained earnings*	108,601,326	(497,559)	108,103,767

**Refer to Note 2 for other related adjustments.*

Statement of Comprehensive Income for the year ended December 31, 2016

	Balance, as previously presented	Prior period adjustments Increase (decrease)	Balance, as restated
Fair value gain (loss) on financial asset through FVPL	(₱79,092)	₱879,000	₱799,908
Changes in fair value of AFS financial assets	6,627,055	(879,000)	5,748,055

Impact on the Statement of Cash Flows for the year ended December 31, 2016
Prior period adjustments have no impact on the statement of cash flows for the year ended December 31, 2016.

Financial asset at fair value through profit and loss
Financial asset at fair value through profit and loss pertain to investment in mutual fund and preferred shares. Details as of and for the years ended December 31, 2017 and 2016, and January 1, 2016 follow:

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
Mutual fund	**₱4,180,804**	₱3,701,244	₱3,780,336
Preferred equity shares	**25,675,275**	26,157,000	14,778,000
	₱29,856,079	₱29,858,244	₱18,558,336

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
Beginning balance	**₱29,858,244**	₱18,558,336	₱–
Reclassification	–	–	14,512,500
Additions	–	10,500,000	3,943,995
Fair value gain (loss) recognized in profit and loss	**(2,165)**	799,908	101,841
Ending balance	**₱29,856,079**	₱29,858,244	₱18,558,336

AFS financial assets
AFS financial assets pertain to quoted and unquoted equity securities. Details are as follows:

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
Quoted securities - at fair value			
Listed equity securities:			
Common shares	**₱47,796,535**	₱51,433,691	₱55,724,848
Unquoted securities - at cost			
Common shares	**30,000**	30,000	30,000
Total AFS financial assets recognized in the statements of financial position	**₱47,826,535**	₱51,463,691	₱55,754,848

The cost of the quoted and unquoted equity securities are as follows:

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
Quoted securities - at cost, net of accumulated impairment losses			
Listed equity securities:			
Common shares	**₱50,979,450**	₱63,558,843	₱69,182,019
Impairment losses	**1,813,593**	6,141,998	8,197,382
	49,165,857	57,416,845	60,984,637
Unquoted securities - at cost			
Common shares	**30,000**	30,000	30,000
Total AFS financial assets at cost	**₱49,195,857**	₱57,446,845	₱61,014,637

The movements in “Revaluation reserve on AFS financial assets” follow:

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
Balance at beginning of the year	**(₱5,983,154)**	(₱5,259,789)	(₱7,545,780)
Revaluation reserve recognized in OCI	**17,920,612**	5,748,055	(3,215,685)
Realized gain transferred to profit or loss (Note 18)	**(15,120,373)**	(12,613,418)	(2,695,706)
Impairment loss	**1,813,593**	6,141,998	8,197,382
Balance at end of the year	**(₱1,369,322)**	(₱5,983,154)	(₱5,259,789)

Dividend income earned from the Company’s AFS financial assets amounted to ₱2.12 million and ₱2.77 million in 2017 and 2016, respectively (see Note 18).

HTM investments
HTM investments pertain to peso-denominated government securities. Details as of and for the years ended December 31, 2017 and 2016 follow:

	2017	2016
Fair value (Note 23)	**₱137,165,382**	₱95,596,110
Carrying value	**137,663,787**	93,062,742
Interest income earned (Note 18)	**5,319,047**	4,625,426
Coupon rate	**3.250% to 7.735%**	3.250% to 7.735%

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

	HTM	**AFS**
At January 1, 2016	₱87,709,762	₱55,754,848
Additions	12,000,000	174,723,616
Disposals/maturities	(6,000,000)	(184,762,828)
Amortization	(647,020)	–
Fair value loss recognized in OCI	–	5,748,055
At December 31, 2016	**93,062,742**	**51,463,691**
Additions	**56,055,713**	**119,094,827**
Disposals/maturities	**(11,000,000)**	**(140,652,595)**
Amortization	**(454,668)**	**–**
Fair value gain recognized in OCI	**–**	**17,920,612**
At December 31, 2017	**₱137,663,787**	**₱47,826,535**

Loans and receivables
This account consists of the following:

	2017	2016
Receivables from employees	**₱5,834,052**	₱4,766,209
Accrued interest income	**1,152,720**	873,606
Accrued dividend income	**398,950**	256,225
Accounts receivable	**–**	3,789,600
	₱7,385,722	₱9,685,640

Accounts receivable include premiums receivable previously under litigation which were already awarded to the Company. This also includes receivables from terminated employees.

The Company's receivables from employees are settled through salary deduction. Interest earned during the year 2017 and 2016 from receivables from employees amounted to ₱2.01 million and ₱0.63 million, respectively (see Note 18).

Accrued interest income pertains mainly to interest accrued arising from cash and cash equivalents, HTM investments and short-term investments.

As of December 31, 2017 and 2016, the Company's receivables from employees, accounts receivable and accrued interest income are all due within one year.

8. Reinsurance Assets

This account consists of the following:

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
Reinsurance recoverable on unpaid losses (Note 13)	**₱3,095,737**	₱4,746,969	₱1,764,502
Deferred reinsurance premiums (Note 13)	**27,016,713**	21,795,676	17,558,280
	₱30,112,450	₱26,542,645	₱19,322,782

9. Deferred Acquisition Costs and Deferred Reinsurance Commissions

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

	2017	2016
Deferred acquisition costs		
At January 1	**₱26,010,913**	₱21,943,930
Cost deferred during the year	**81,176,652**	60,696,644
Amortization during the year	**(72,656,892)**	(56,629,661)
At December 31	**₱34,530,673**	₱26,010,913

	2017	2016
Deferred reinsurance commissions		
At January 1	**₱6,233,626**	₱4,921,737
Income deferred during the year	**16,556,022**	11,687,380
Income earned during the year	**(14,868,882)**	(10,375,491)
At December 31	**₱7,920,766**	₱6,233,626

10. Investment Properties

The Company's investment properties were valued by independent professionally qualified appraisers on various dates from November 29, 2006 to December 31, 2017. Management believes that the fair values of these investment properties approximate their fair values as of December 31, 2017 and 2016. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

In April 2017, the Company sold an investment property located in Batasan Hills, Quezon City costing ₱74,260. The Company earned a gain on sale amounting to ₱525,740 (see Note 18).

The Company developed its investment property in San Miguel, Tarlac City. The development cost amounting to ₱310,000 was capitalized.

The following tables show the location and the key inputs on the valuation of the investment properties:

Location	Significant unobservable inputs	Range (weighted average)
San Miguel Tarlac City	Estimated Computed Value per sqm	₱1,800 to ₱2,646
	Net price (₱/sqm)	₱3,150 to ₱3,780
	Internal Factor	
	Location	-20%
	Size	-20% to 0%
	Time element	0%
Las Haciendas de Luisita, Tarlac City	Estimated Computed Value per sqm	₱972 to ₱2,475
	Net price (₱/sqm)	₱810 to ₱2,250
	Internal Factor	
	Location	-5 to 5%
	Size	-6% to 20%
	Time element	0% to 5%
Pasong Tamo, Quezon City	Estimated Computed Value per sqm	₱18,414 to ₱22,500
	Net price (₱/sqm)	₱19,800 to ₱22,500
	Internal Factor	
	Location	0%
	Size	-10% to 0%
	Time element	0%
Moriones, San Jose, Tarlac	Estimated Computed Value per sqm	₱54 to ₱272
	Net price (₱/sqm)	₱54 to ₱90
	Internal Factor	
	Location	0% to 20%
	Size	-20% to 0%
	Time element	0%
Mayamot, Antipolo	Estimated Computed Value per sqm	₱5,967 to ₱7,207
	Net price (₱/sqm)	₱5,850 to ₱6,750
	Internal Factor	
	Location	0%
	Size	1% to 10%
	Time element	0%
Bagong Silangan, Quezon City	Estimated Computed Value per sqm	₱2,346 to ₱3,170
	Net price (₱/sqm)	₱7,330 to ₱8,807
	Internal Factor	
	Location	-20%
	Size	-3% to 1%
	Time element	0%
Andres de Bonifacio Baguio City	Estimated Computed Value per sqm	₱9,544 to ₱14,841
	Net price (₱/sqm)	₱9,450 to ₱15,300
	Internal Factor	
	Location	0% to 5%
	Size	-4% to 0%
	Time element	0%
Binahaan Pagbilao Quezon City	Estimated Computed Value per sqm	₱111 to ₱216
	Net price (₱/sqm)	₱90 to ₱180
	Internal Factor	
	Location	0% to 20%
	Size	-20% to 3%
	Time element	0%

(Forward)

Location	Significant unobservable inputs		Range (weighted average)
Maly, San Mateo, Rizal	Estimated Computed Value per sqm		₱272 to ₱600
	Net price (₱/sqm)		₱664 to ₱1,200
	Internal Factor		
		Location	-20%
		Size	1% to 10%
		Time element	0%
Bayabas, Dona Remedios Trinidad, Bulacan	Estimated Computed Value per sqm		₱48 to ₱227
	Net price (₱/sqm)		₱25 to ₱180
	Internal Factor		
		Location	20%
		Size	3% to 20%
		Time element	0%
Talipapa, Cabanatuan City	Estimated Computed Value per sqm		₱480 to ₱1,056
	Net price (₱/sqm)		₱960 to ₱2,400
	Internal Factor		
		Location	-20%
		Size	4% to 10%
		Time element	0%
Kalawakan, Dona Remedios Trinidad, Bulacan	Estimated Computed Value per sqm		₱57 to ₱123
	Net price (₱/sqm)		₱38 to ₱77
	Internal Factor		
		Location	-10%
		Size	10% to 20%
		Time element	0%
Batasan Hills, Quezon City	Estimated Computed Value per sqm		₱2,925 to ₱3,600
	Net price (₱/sqm)		₱6,500 to ₱8,000
	Internal Factor		
		Location	-15%
		Size	0%
		Time element	

The fair values of the parcels of land were determined using *Market Data Approach*. In this approach, the value of the land is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires the establishment of comparable property by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the difference between the subject property and actual sales and listings regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject properties.

As of December 31, 2017 and 2016, the aggregate fair value of the Company's investment properties amounted to ₱392 million and ₱282 million, respectively. The Company has determined that the highest and best use of the parcels of land at the measurement date would be to convert the properties for residential purposes and as such are valued in this manner which is categorized under Level 3 of the fair value hierarchy. For strategic purposes, the Company does not utilize these properties in this manner.

11. **Property and Equipment**

The rollforward analysis of this account follows:

December 31, 2017

	Leasehold Improvements	**Transportation Equipment**	**Computer Equipment**	**Office Furniture, Fixtures and Equipment**	**Total**
Cost					
At January 1, 2017	**₱2,889,930**	**₱4,678,364**	**₱22,490,649**	**₱4,240,009**	**₱34,298,952**
Additions	**553,725**	**1,060,000**	**1,602,461**	**822,489**	**4,038,675**
Disposals	–	**(1,345,000)**	**(325,090)**	**(52,700)**	**(1,722,790)**
At December 31, 2017	**3,443,655**	**4,393,364**	**23,768,020**	**5,009,798**	**36,614,837**
Accumulated depreciation and amortization					
At January 1, 2017	**994,011**	**3,509,172**	**11,591,759**	**2,749,581**	**18,844,523**
Depreciation and amortization (Note 20)	**267,593**	**382,816**	**2,410,382**	**474,889**	**3,535,680**
Disposal	–	**(1,160,277)**	**(325,090)**	**(52,700)**	**(1,538,067)**
At December 31, 2017	**1,261,604**	**2,731,711**	**13,677,051**	**3,171,770**	**20,842,136**
Net book value	**₱2,182,041**	**₱1,661,653**	**₱10,090,969**	**₱1,838,038**	**₱15,772,701**

December 31, 2016

	Leasehold Improvements	Transportation Equipment	Computer Equipment	Office Furniture, Fixtures and Equipment	Total
Cost					
At January 1, 2016	₱2,678,942	₱6,283,364	₱17,327,995	₱3,618,659	₱29,908,960
Additions	308,544	245,000	6,152,913	871,570	7,578,027
Disposals	(97,556)	(1,850,000)	(990,259)	(250,220)	(3,188,035)
At December 31, 2016	2,889,930	4,678,364	22,490,649	4,240,009	34,298,952
Accumulated depreciation and amortization					
At January 1, 2016	754,925	4,825,422	10,132,565	2,570,035	18,282,947
Depreciation and amortization (Note 20)	279,473	533,750	2,449,453	429,766	3,692,442
Disposal	(40,387)	(1,850,000)	(990,259)	(250,220)	(3,130,866)
At December 31, 2016	994,011	3,509,172	11,591,759	2,749,581	18,844,523
Net book value	₱1,895,919	₱1,169,192	₱10,898,890	₱1,490,428	₱15,454,429

The total cost of the Company's fully depreciated property and equipment still in use amounted to ₱10.81 million and ₱9.86 million as of December 31, 2017 and 2016, respectively.

12. **Other Assets**

This account consists of the following:

	2017	2016
Prepayments	**₱7,437,120**	₱6,467,870
Security fund	**48,439**	27,166
Documentary stamp tax fund	–	3,281,944
	₱7,485,559	₱9,776,980

Prepayments pertain to prepaid taxes, unused office supplies and printed forms which are to be consumed in the Company's operation.

Creditable withholding tax arises from overpayment of income tax. This can be applied against income tax due in future periods. In 2017 and 2016, the Company fully applied all available creditable tax against income tax due.

13. **Insurance Contract Liabilities**

Short-term nonlife insurance liabilities may be analyzed as follows:

	December 31, 2017			December 31, 2016 (As Restated)			January 1, 2016 (As Restated)		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	**Net**
Provision for claims reported	**₱28,358,855**	**₱1,584,150**	**₱26,774,705**	₱26,909,046	₱3,555,645	₱23,353,401	₱28,439,645	₱1,739,494	₱26,700,151
Provision for IBNR losses	**5,718,319**	**1,511,587**	**4,206,732**	3,300,472	1,191,324	2,109,148	1,892,158.	25,008	1,867,150
Outstanding claims provision	**34,077,174**	**3,095,737**	**30,981,437**	30,209,518	4,746,969	25,462,549	30,331,803	1,764,502	28,567,301
Provision for unearned premiums	**152,242,295**	**27,016,713**	**125,225,582**	110,422,135	21,795,676	88,626,459	95,721,036.	17,558,280	78,162,756
Total insurance contract liabilities	**₱186,319,469**	**30,112,450**	**₱156,207,019**	₱140,631,653	₱26,542,645	₱114,089,008	₱126,052,839	₱19,322,782	₱106,730,057

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

	December 31, 2017			December 31, 2016 (As Restated)			January 1, 2016 (As Restated)		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	**Net**
At January 1	**₱30,209,518**	**₱4,746,969**	**₱25,462,549**	₱30,331,803	₱1,764,502	₱28,567,301	₱35,964,886	₱6,160,859	₱29,804,027
Claims incurred during the year	**62,284,858**	**4,957,829**	**57,250,881**	72,244,135	28,726,933	43,517,202	43,336,982	4,602,522	38,734,460
Claims paid during the year - (Note 19)	**(60,835,049)**	**(7,005,472)**	**(53,829,577)**	(73,774,733)	(26,910,782)	(46,863,951)	(50,085,241)	(9,023,887)	(41,061,354)
Increase in IBNR	**2,417,847**	**396,411**	**2,097,584**	1,408,314	1,166,316	241,998	1,115,176	25,008	1,090,168
At December 31	**₱34,077,174**	**₱3,095,737**	**₱30,981,437**	₱30,209,518	₱4,746,969	₱25,462,549	₱30,331,803	₱1,764,502	₱28,567,301

Provision for unearned premiums may be analyzed as follows:

	December 31, 2017			December 31, 2016 (As Restated)			January 1, 2016 (As Restated)		
	Insurance Contract Liabilities	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 8)	Net
At January 1	**₱110,422,135**	**₱21,795,676**	**₱88,626,459**	₱95,721,035	₱17,558,280	₱78,162,755	₱80,865,280	₱13,612,056	₱67,253,224
New policies written during the year (Note 17)	**359,841,599**	**96,319,320**	**263,522,279**	262,076,850	82,715,604	179,361,246	230,574,145	74,882,763	155,691,382
Premiums earned during the year (Note 17)	**(318,021,439)**	**(91,098,283)**	**(226,923,156)**	(247,375,750)	(78,478,208)	(168,897,542)	(215,718,389)	(70,936,539)	(144,781,850)
At December 31	**₱152,242,295**	**₱27,016,713**	**₱125,225,582**	₱110,422,135	₱21,795,676	₱88,626,459	₱95,721,036	₱17,558,280	₱78,162,756

14. **Insurance Payables**

This account consists of:

	2017	2016
Due to reinsurers and ceding companies	**₱11,890,432**	₱10,639,487
Funds held for reinsurers	**2,505,218**	1,762,965
	₱14,395,650	₱12,402,452

The rollforward analysis of insurance payables follows:

	Due to reinsurers and ceding companies	**Funds held for reinsurers**	**Total**
At January 1, 2016	₱5,992,278	₱1,867,993	₱7,860,271
Arising during the year	25,624,672	1,762,965	27,387,637
Paid/Utilized	(20,977,463)	(1,867,993)	(22,845,456)
At December 31, 2016	10,639,487	1,762,965	12,402,452
Arising during the year	36,901,257	2,505,217	39,406,474
Paid/Utilized	(35,650,312)	(1,762,964)	(37,413,276)
At December 31, 2017	**₱11,890,432**	**₱2,505,218**	**₱14,395,650**

15. **Accounts Payable and Other Liabilities**

This account consists of:

	2017	2016
Income tax payable	**₱10,049,546**	₱4,340,353
Deferred output VAT	**6,929,738**	5,687,009
Collateral bonds	**6,750,843**	477,843
Taxes payable	**2,460,900**	2,167,510
Accrued expenses	**2,064,705**	1,843,667
Output VAT	**1,526,780**	1,549,518
Accounts payable	**853,741**	3,734,124
Payable to government agencies	**696,892**	564,345
	₱31,333,145	₱20,364,369

Income tax payable pertain to the current income tax provision payable.

Deferred output VAT pertains to output VAT on receivables for which sales recognition has been deferred based on sales collection threshold for VAT recognition purposes.

Collateral bonds represents the amount of cash collaterals received by the Company in relation to suretyship contracts.

Taxes payable pertain to withholding taxes, documentary stamps and fire service tax payable.

Accrued expenses pertain to operating expenses of the Company which are non-interest bearing and are due and demandable.

Output VAT, taxes payable and accounts payable are noninterest-bearing and normally settled within 30 to 60 days.

Payable to government agencies pertains to contributions to SSS, Pag-ibig and Medicare.

16. Equity

The Company's capital stock consists of:

	2017		2016	
	Shares	**Amount**	Shares	Amount
Common stock - ₱100 par value				
Authorized:				
At January 1 and December 31	**3,000,000**	**₱300,000,000**	3,000,000	₱300,000,000
Issued and outstanding:				
At January 1 and December 31	**2,709,750**	**₱270,975,000**	2,709,570	₱270,957,000
Subscribed and paid				
At January 1 and December 31	**107,296**	**₱10,729,600**	107,296	₱10,729,600

On September 27, 2016, the Company's BOD approved the proposed increase in authorized capital stock from 3,000,000 shares at ₱100 par value or ₱300,000,000 to 6,000,000 shares at ₱100 par value or ₱600,000,000. The Company is still in the process of preparing the documents for its application for an increase in authorized capital stock with the SEC.

In 2016, the Company received cash amounting to ₱10,729,600 from stockholders as payment for additional subscription.

17. Net Insurance Earned Premiums

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

	2017	2016
Gross premiums on insurance contracts:		
Direct insurance	**₱342,210,443**	₱255,053,215
Assumed reinsurance	**17,631,156**	7,023,635
Total gross premiums on insurance contracts (Note 13)	**359,841,599**	262,076,850
Gross change in provision for unearned premiums (Note 13)	**(41,820,160)**	(14,701,100)
Total gross earned premiums on insurance contracts	**318,021,439**	247,375,750
Total reinsurers' share of gross premiums on insurance contracts:		
Direct insurance (Note 13)	**96,319,320**	82,715,604
Reinsurers' share of gross change in provision for unearned premiums (Note 13)	**(5,221,037)**	(4,237,396)
Total reinsurers' share of gross earned premiums on insurance contracts	**91,098,283**	78,478,208
Total net insurance earned premiums	**₱226,923,156**	₱168,897,542

18. Investment and Other Income and Other Underwriting Income

Investment and Other Income
This account consists of:

	2017	2016
Interest income:		
Cash and cash equivalents (Note 4)	**₱242,827**	₱225,475
Short-term investments (Note 5)	**1,674,560**	614,212
HTM investments (Note 7)	**5,319,047**	4,625,426
Receivable from employees (Note 7)	**2,014,158**	634,454
Realized gain transferred to profit or loss on AFS financial assets (Note 7)	**15,120,373**	12,613,418
Dividend income (Note 7)	**2,119,213**	2,768,112
Gain on sale of investment property (Note 10)	**525,740**	–
Gain on sale of property and equipment (Note 11)	**132,277**	630,000
	₱27,148,195	₱22,111,097

Other Underwriting Income
Other underwriting income pertains to income from various sources including the Company's share in insurance pool. For 2017 and 2016, the Company recognized other underwriting income amounting to ₱25,313,148 and ₱23,136,591, respectively.

19. Net Insurance Benefits and Claims

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

	2017	2016
Insurance contract benefits and claims paid:		
Direct insurance	**₱55,366,573**	₱73,713,847
Assumed reinsurance	**5,468,476**	60,886
Total insurance contract benefits and claims paid (Note 13)	**₱60,835,049**	₱73,774,733

In 2017 and 2016, the reinsurers' share of gross insurance contract benefits and claims paid from direct insurance contracts amounted to ₱7,005,472 and ₱26,910,782, respectively (see Note 13).

Gross change in insurance contract liabilities:

	2017	2016
Change in provision for claims reported:		
Direct insurance	**₱1,449,809**	(₱1,530,599)
Change in provision for IBNR	**2,417,847**	1,408,314
Total gross change in insurance contract liabilities (Note 13)	**₱3,867,656**	(₱122,285)

Reinsurers' share of gross change in insurance contract liabilities:

	2017	2016
Reinsurers' share of gross insurance contract liabilities:		
Direct insurance	**₱1,971,495**	(₱1,816,151)
Reinsurers' share of change in provision for IBNR	**(320,263)**	(1,166,316)
Total reinsurers' share of gross change in insurance contract liabilities (Note 13)	**(₱1,651,232)**	(₱2,982,467)

20. **Operating Expenses**

This account consists of:

	2017	2016
Salaries and employee benefits	**₱56,516,299**	₱51,443,139
Rent (Note 26)	**8,563,347**	7,288,744
Depreciation and amortization (Note 11)	**3,535,680**	3,692,442
Professional fees	**4,175,882**	3,452,371
Taxes, licenses and fees	**1,981,682**	877,155
Printing and office supplies	**1,585,149**	1,389,537
Directors' fees (Note 24)	**1,440,000**	770,000
Professional and technical development	**1,227,739**	955,517
Transportation and travel	**1,085,531**	935,577
Entertainment, amusement and recreation	**1,042,633**	1,313,306
Light and water	**995,188**	956,282
Communication and postage	**990,043**	793,915
Janitorial and messengerial services	**956,592**	726,715
Repairs and maintenance	**919,850**	809,184
Association dues	**695,428**	640,385
Advertising	**597,597**	349,458
Donation and contributions	**170,941**	309,064
Insurance	**99,152**	23,470
Miscellaneous	**2,821,778**	2,360,486
	₱89,400,511	₱79,086,747

21. **Retirement Plan**

The Company has a funded, tax qualified, noncontributory, defined benefit pension plan covering all of its employees. The benefits are based on years of service and compensation on the last year of employment.

The Company's annual contribution to the plan consists principally of payments which covers the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable. The funds are administered by a trustee bank under the supervision of the Board of Trustees (BOT) of the plan which delegates the implementation of the investment policy to an Investment Committee. These funds are subject to the investment objectives and guidelines established by the Investment Committee and rules and regulations issued by Bangko Sentral ng Pilipinas covering assets under trust and fiduciary agreements. The Investment Committee is responsible for the investment strategy of the plan. The latest actuarial valuation date of the Company's retirement plan is December 31, 2017.

Republic Act (RA) No. 7641, *The New Retirement Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. The law does not require minimum funding of the plan.

The following tables summarize the components of plan expense recognized in profit or loss under "Operating expenses," and the funded status and amounts recognized in the statements of financial position for the plan:

	2017		
	Present value of defined benefit obligation	**Fair value of plan assets**	**Net pension (asset) liability**
At January 1	**₱43,301,676**	**₱37,821,835**	**₱5,479,841**
Benefit cost in statement of income			
Current service cost	**4,185,675**	**–**	**4,185,675**
Net interest expense	**2,247,357**	**1,962,953**	**284,404**
Remeasurements in OCI			
Actuarial loss on plan assets	**–**	**(1,758,322)**	**1,758,322**
Actuarial gain on defined benefit obligation	**(2,386,375)**	**–**	**(2,386,375)**
Contributions	**–**	**17,400,000**	**(17,400,000)**
Benefits paid	**(139,881)**	**(139,881)**	**–**
At December 31	**₱47,208,452**	**₱55,286,585**	**(₱8,078,133)**

	2016		
	Present value of defined benefit obligation	Fair value of plan assets	Net pension liability
At January 1	₱31,440,487	₱29,921,302	₱1,519,185
Benefit cost in statement of income			
Current service cost	3,971,707	–	3,971,707
Net interest expense	1,634,905	1,555,908	78,997
Remeasurements in OCI			
Actuarial loss on plan assets	–	(1,290,621)	1,290,621
Actuarial loss on defined benefit obligation	6,419,331	–	6,419,331
Contributions	–	7,800,000	(7,800,000)
Benefits paid	(164,754)	(164,754)	–
At December 31	₱43,301,676	₱37,821,835	₱5,479,841

The current service cost and net interest expense on pension are presented in the profit or loss under the "Salaries and employee benefits" account in the "Operating expenses" (see Note 20).

The fair values of plan assets by each class as at the end of the reporting period of the Company are as follows:

	2017	2016
Cash and cash equivalents:		
Cash	**₱105**	₱423
Debt instrument:		
Government securities	**51,571,726**	22,973,722
Corporate bonds	**3,022,170**	4,137,672
Investment in UITF	**78,766**	10,329,208
Receivables	**695,558**	438,795
	55,368,325	37,879,820
Trust fee payable	**(81,740)**	(57,985)
	₱55,286,585	₱37,821,835

Due to the short term nature of the financial instruments in the plan assets, their fair values approximate their carrying amounts as of December 31, 2017 and 2016.

Cash and cash equivalents and trust fees payable are carried at carrying value due to short-term nature of the financial instruments.

Debt instruments and instrument in UITF are carried at fair value using quoted market prices.

The Company's plan asset has no investment in related parties.

The principal actuarial assumptions used in determining retirement benefit obligations follow:

	2017	2016
Discount rate	**5.70%**	5.19%
Salary increase rate	**8.00%**	8.00%
Average remaining working lives of employees	**13 years**	21 years

Below shows the sensitivity analysis determined based on reasonably possible changes of each significant assumptions stated above as of December 31, 2017 and 2016, assuming all other assumptions were held constant:

		2017	
	Year	Increase (decrease) in rates	Increase (decrease) in the defined benefit obligation
Discount rate	**2017**	**+0.5%**	**(₱9,842,289)**
		-0.5%	**6,170,898**
	2016	+0.5%	(₱1,500,416)
		-0.5%	1,845,392
Salary increase rate	**2017**	**+0.5%**	**₱6,317,819**
		-0.5%	**(9,726,159)**
	2016	+0.5%	₱1,735,598
		-0.5%	(1,441,815)

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017and 2016:

	2017	2016
Less than 5 years	**₱33,119,024**	₱28,458,769
More than 5 years to 10 years	**14,505,025**	15,735,583
More than 10 years to 15 years	**34,335,748**	30,679,721
More than 15 years to 20 years	**182,325,036**	537,677,472
Total	**₱264,284,833**	₱612,551,545

22. Income Tax

Income tax includes the RCIT and final taxes paid at the rate of 20% which is the final withholding tax on gross interest income from cash and cash equivalents, time deposits, HTM financial assets and loans and receivables. These income taxes as well as the deferred tax provisions are presented as provision for income tax in the statements of comprehensive income as follows:

	2017	2016
Current		
RCIT	**₱12,058,061**	₱5,772,492
Final	**1,447,287**	1,093,023
Deferred	**1,968,414**	1,179,149
	₱15,473,762	₱8,044,664

The components of the Company's net deferred tax assets (liabilities) consist of the tax effects of the following:

	December 31, 2017	December 31, 2016, as restated	January 1, 2016, as restated
Presented in profit or loss			
Deferred tax assets on:			
Unamortized past service cost	**₱6,039,871**	₱2,382,996	₱1,545,210
Deferred reinsurance commissions	**2,376,230**	1,870,088	1,476,521
Provision for IBNR losses	**1,262,020**	632,744	560,145
Allowance for doubtful accounts	**63,835**	63,835	63,835
Excess of deferred reinsurance premiums per books over tax basis	–	1,707,050	1,273,621
Total deferred tax assets	**9,741,956**	6,656,713	4,919,332
Deferred tax liabilities on:			
Deferred acquisition costs	**10,359,202**	7,803,274	6,583,179
Accrued retirement	**6,351,183**	2,472,207	1,347,418
Excess of deferred reinsurance premiums per books over tax basis	–	1,381,247	809,601
Total deferred tax liabilities	**16,710,385**	11,656,728	8,740,198
	(6,968,429)	(5,000,015)	(3,820,866)
Presented in other comprehensive income			
Deferred tax asset			
Accrued retirement	**3,927,743**	4,116,159	1,803,172
Net deferred tax liabilities	**₱3,040,686**	(₱883,856)	(₱2,017,694)

The reconciliation of statutory income tax rate to effective income tax rate follows:

	2017	2016
Statutory income tax rate	**30.00%**	30.00%
Add (deduct) tax effects of:		
Nontaxable income	**(7.45)**	(12.13)
Nondeductible expenses	**0.80**	4.91
Income subjected to final taxes	**(1.04)**	(1.44)
Effective income tax rate	**22.31%**	21.34%

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

23. Management of Capital, Insurance and Financial Risks

Governance Framework

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

The Company is guided by its standard operating procedures and internal control procedures designed to ensure attainment of the Company's objectives. Currently, the Company has no separate risk management policies since these are incorporated within the standard operating and internal control procedures. Also, risk management includes the Company entering into treaty agreements, which more or less limits the risk acceptance.

Regulatory Framework

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

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

Capital Management Framework

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 statutory requirements imposed by the IC for nonlife insurance companies.

The Company reviews the capital requirements through monthly computation of the RBC which are regularly communicated to the major shareholders. With this procedure, shareholders are forewarned in anticipation of the IC requirements of additional capital infusion. Shareholders are well updated with these externally imposed capital requirements since these are being discussed during annual BOD meetings. They have shown their commitment to comply with this regulation, same as prior years when they willingly infused additional cash as the need arose.

Fixed Capitalization Requirements
On January 13, 2015, the IC issued CL No. 2015-02-A clarifying the minimum capitalization and networth requirements of new and existing insurance companies in the Philippines. All domestic life and nonlife insurance companies duly licensed by the IC must have a networth of at least ₱550 million by December 31, 2016. The following presents the amount of required networth and the schedule of compliance:

Minimum Networth	Compliance Date
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

The Company is compliant with IC's minimum networth requirement of ₱550 million as of December 31, 2017.

The net worth of the Company after IC's audit for the year ended December 31, 2016 amounted to ₱579,850,253.

Unimpaired capital requirement
IC CL No. 2015-02-A, which supersedes IC CL No. 22-2008, also states that the networth should remain intact and unimpaired at all times. As of December 31, 2017 and 2016, the Company has complied with the unimpaired capital requirement.

Financial Reporting Framework
IC issued CL No. 2016-65 on December 28, 2016 which provides the implementation of the provisions of Financial Reporting Framework (FRF) under Section 189 of the Amended Insurance Code (Republic Act No. 10607) also known as the "New Insurance Code." This circular clarifies the rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all the other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies. Enumeration of Section 202 (Admitted Assets), Section 203 (Non-Admitted Assets) and Title IV (Investments) are included in the New Insurance Code. Furthermore, IC has issued the "Manual of Accounts" to clarify the financial reporting framework to be adopted by life and nonlife insurance and professional reinsurance companies in the preparation of their financial statements for submission to the IC. The manual of accounts discusses the nature, types and recognition and measurement of each account in the financial statement. The circular is implemented starting January 1, 2017.

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

CL No. 2016-67, *Valuation Standards for Nonlife Insurance Policy Reserves*, prescribes the new valuation methodology for the nonlife insurance companies. Nonlife insurance companies will be changing the basis of valuation of their 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 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 provisionally set at 10% during the parallel runs and shall be incorporated on both premiums and claims liability valuation. Discount rates to be used shall be based on the latest PDST-R2 rates and the Bloomberg IYC Curve for PhP and USD-denominated policies, respectively.

Unexpired Risk Reserves (URR) refers to the amount of reserve required to cover future claims, commission and expenses at a designated level of confidence, that are expected to emerge from an unexpired period of cover. For 2017, companies shall be allowed to set up as premium liabilities the Unearned Premium Reserves (UPR) instead of the higher of the UPR and URR. Starting 2018, the premiums liabilities shall be determined in accordance with the valuation standards prescribed under IC CL No. 2016-67 which is the higher between the UPR and URR.

On December 28, 2016, the IC issued CL No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended RBC2 Framework*, which provides that the following new regulatory requirements under their respective CL shall take effect beginning January 1, 2017:

1. Financial Reporting Framework (FRF): CL No. 2016-65;
2. Valuation Standards for Life Insurance Policy Reserves: CL No. 2016-66;
3. Valuation Standards for Nonlife Insurance Policy Reserves: CL No. 2016-67;
4. Amended Risk-Based Capital (RBC2) Framework: CL No. 2016-68.

The Company complied with the aforementioned regulation. Accordingly, the Company restated its 2016 and 2015 financial statements to reflect the change in valuation methodology on IBNR claims reserves (see Note 2).

RBC Requirements
For purposes of the December 31, 2017 and 2016 financial reporting, the Company determined its compliance with the RBC requirements of the IC based on the provisions of CL No. 2016-68 and IMC No. 7-2006, respectively. These circulars provide RBC frameworks for nonlife insurance companies in order 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 surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC.

The following table shows how the RBC ratio as of December 31, 2016 was determined by the Company:

Net worth	₱561,613,667
RBC requirement	121,113,065
RBC Ratio	464%

The final RBC ratio can only be determined after the accounts of the Company have been examined by the results of IC audit.

If an insurance company failed to meet the minimum required MOS, fixed capitalization requirements and RBC requirements, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

Pursuant to IC CL No. 2017-15, *Regulatory Requirements and Actions for the New Regulatory Framework*, effective January 1, 2017, nonlife insurance companies are required to maintain minimum RBC2 requirement as prescribed under IC CL No. 2016-68. Under the RBC2 Framework, the RBC ratio shall be calculated as total available capital divided by the RBC2 requirement. The following table shows the estimated RBC ratio as of December 31, 2017 as determined by the Company based on the RBC2 Framework:

Total available capital	₱611,478,284
RBC2 requirement	111,618,267
RBC2 ratio	548%

The final amount of the RBC ratio can only be determined after the accounts of the Company have been examined by the IC.

The total available capital shall be the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer. Tier 2 capital shall not exceed 50% of Tier 1 Capital.

The RBC requirement shall be the capital that is required to be held appropriately to the risks an insurance company is exposed to, computed using the formula as prescribed under IC CL No. 2016-68.

Insurance Risk

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

The Company principally issues the following types of general insurance contracts: fire, motor car, marine insurance, personal accident insurance and miscellaneous casualty. Risks under general insurance policies usually cover a twelve-month period.
For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities. These risks vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

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

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

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

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

December 31, 2017

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	**₱8,099,557**	**₱1,226,040**	**₱6,873,517**
Motor	**18,618,255**	**120,974**	**18,497,281**
Miscellaneous casualty	**1,521,070**	**180,900**	**1,340,170**
Personal accident	**119,973**	**56,236**	**63,737**
Total	**₱28,358,855**	**₱1,584,150**	**₱26,774,705**

December 31, 2016

	Gross Claims Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	₱7,169,916	₱3,114,998	₱4,054,918
Motor	15,581,114	395,924	15,185,190
Miscellaneous casualty	4,064,315	9,052	4,055,263
Personal accident	93,701	35,671	58,030
Total	₱26,909,046	₱3,555,645	₱23,353,401

Terms and conditions
The major classes of general insurance written by the Company include motor car, fire and marine insurance. Risks under these policies usually cover a 12-month period.

For general insurance contracts, outstanding claims provisions (comprising provisions for claims reported by policyholders and IBNR) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the reporting date.

The provisions are refined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

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

Assumptions
The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs,

claim inflation factors and number of claims for each accident year. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions include variations in interest rates and delays in settlement.

Sensitivities

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

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

	Year	Change in Assumptions	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	**2017**	**5%**	**₱1,283,191**	**₱1,211,511**	**₱1,211,511**
	2016	3%	807,271	700,602	700,602
Average number of claims	**2017**	**64%**	**₱18,187,276**	**₱17,171,320**	**₱17,171,320**
	2016	66%	17,759,970	15,413,244	15,413,244

The average claim costs and number of claims were based on the Company's claims development experience for the past four years.

Claims Development Table

Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis for fire, marine and motor lines:

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

The Company aims to maintain strong reserves in respect of its general insurance in order to protect against adverse future claims experience and development. As claims develop and ultimate costs of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

Gross General Insurance Contract Liabilities for 2017

Accident year	2010 and Prior Years	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims costs:									
At the end of accident year	**₱422,840,569**	**₱39,969,096**	**₱87,690,629**	**₱53,694,688**	**₱51,088,459**	**₱40,955,858**	**₱76,327,545**	**₱65,374,367**	**₱65,374,367**
One year later	**424,433,044**	**39,969,096**	**87,690,629**	**53,694,688**	**52,625,309**	**29,620,214**	**94,787,112**	**–**	**94,787,112**
Two years later	**424,457,251**	**39,969,096**	**87,690,629**	**53,703,238**	**52,376,426**	**29,995,281**	**–**	**–**	**29,995,281**
Three years later	**424,564,728**	**39,969,096**	**87,690,629**	**53,692,805**	**52,376,426**	**–**	**–**	**–**	**52,376,426**
Four years later	**424,564,728**	**39,969,096**	**87,690,629**	**53,692,805**	**–**	**–**	**–**	**–**	**53,692,805**
Five years later	**424,564,728**	**39,969,096**	**87,690,629**	**53,692,805**	**–**	**–**	**–**	**–**	**87,690,629**
Six years later	**424,564,728**	**39,969,096**	**–**	**–**	**–**	**–**	**–**	**–**	**39,969,096**
Seven years later	**424,564,728**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**424,564,728**
Current estimate of cumulative claims	**424,564,728**	**39,969,096**	**87,690,629**	**53,692,805**	**52,376,426**	**29,995,281**	**94,787,112**	**65,374,367**	**848,450,445**
Cumulative payments to date	**(424,564,728)**	**(39,969,096)**	**(87,690,629)**	**(53,692,805)**	**(52,376,426)**	**(29,995,281)**	**(94,412,910)**	**(37,389,714)**	**(820,091,590)**
Total gross insurance contract liabilities included in the statement of financial position	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱374,202**	**₱27,984,653**	**₱28,358,855**

Net General Insurance Contract Liabilities for 2017

Accident year	2010 and Prior Years	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims costs:									
At the end of accident year	**₱171,649,758**	**₱15,040,851**	**₱39,092,392**	**₱34,284,428**	**₱33,988,613**	**₱36,114,672**	**₱74,511,395**	**₱63,538,303**	**₱63,538,303**
One year later	**172,757,716**	**15,040,851**	**39,092,392**	**34,284,428**	**35,393,690**	**24,779,028**	**92,970,962**		**92,970,962**
Two years later	**172,743,292**	**15,040,851**	**39,092,392**	**34,284,428**	**35,144,807**	**25,154,095**			**25,154,095**
Three years later	**172,815,223**	**15,040,851**	**39,092,392**	**34,273,995**	**35,144,807**	**–**			**35,144,807**
Four years later	**172,815,223**	**15,040,851**	**39,092,392**	**34,273,995**	**–**	**–**			**34,273,995**
Five years later	**172,815,223**	**15,040,851**	**39,092,392**	**–**	**–**	**–**			**39,092,392**
Six years later	**172,815,223**	**15,040,851**	**–**	**–**	**–**	**–**			**15,040,851**
Seven years later	**172,815,223**	**–**	**–**	**–**	**–**	**–**			**172,815,223**
Current estimate of cumulative claims	**172,815,223**	**15,040,851**	**39,092,392**	**34,273,995**	**35,144,807**	**25,154,095**	**92,970,962**	**63,538,303**	**478,030,629**
Cumulative payments to date	**(172,815,223)**	**(15,040,851)**	**(39,092,392)**	**(34,273,995)**	**(35,144,807)**	**(25,154,095)**	**(92,344,846)**	**(37,389,714)**	**(451,255,923)**
Total net insurance contract liabilities included in the statement of financial position	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱626,116**	**₱26,148,589**	**₱26,774,705**

Fair Values of Financial Instruments
Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and other receivables, insurance contract liabilities, insurance payables, and accounts payable and other liabilities, their carrying values reasonably approximate fair values at year-end.

The fair values of financial assets at FVPL, categorized as Level 1, were determined using quoted market prices. The fair value of FVPL investments amounted to ₱29.86 million as of December 31, 2017 and 2016 (see Note 7).

The fair values of AFS financial assets that are actively traded in organized financial markets are determined by reference to quoted market bid prices, at the close of business on the reporting date or the last trading day as applicable. Unquoted AFS financial instruments are carried at cost, less any allowance for impairment loss. The fair values of HTM financial assets were determined using quoted market prices. The Company considers its quoted AFS financial assets amounting to ₱47.80 million and ₱51.43 million as of December 31, 2017 and 2016, respectively, under Level 1 classification. There are no AFS financial assets which have been classified under the Level 2 and 3 categories. 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 measurement (see Note 7).

Due to long term nature of the HTM investments, their carrying value differs from fair value. The fair value of HTM investments is based on the quoted market prices at the end the reporting date. The Company classifies all of its quoted financial assets under Level 1 of the fair value hierarchy. There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement. The fair value of HTM investments amounted to ₱137.17 million and ₱95.60 million as of December 31, 2017 and 2016, respectively (see Note 7).

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

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

Currency risk
Currency risk is the risk that the value of the financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk is minimal.

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

Prior to extending credit, the Company manages its credit risk by assessing credit quality of its counterparty. The Company also manages its credit risk exposure through credit analysis. This is a process of assessing the credit quality of a counterparty, which is a process that includes judgment.

Credit risk limit is also used to manage credit exposure which specifies maximum credit exposure for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

The following table provides information regarding the credit risk exposure of the Company as of December 31, 2017 and 2016:

	2017	2016
Cash and cash equivalents (excluding cash on hand)	**₱56,311,156**	₱47,387,181
Short-term investments	**75,221,137**	32,409,760
Insurance receivables:		
Premiums receivable	**81,597,218**	85,502,990
Reinsurance recoverable on paid losses	**12,956,327**	13,338,124
Due from ceding companies	**9,306,662**	7,116,477
Funds held by ceding companies	**1,059,191**	1,059,191
Financial assets:		
FVPL financial assets	**29,856,079**	29,858,244
AFS financial assets	**47,826,535**	51,463,691
HTM investments	**137,663,787**	93,062,742
Loans and receivables:		
Receivables from employees	**5,834,052**	4,766,209
Accrued income	**1,551,670**	1,129,831
Accounts receivable	**–**	3,789,600
Total	**₱459,183,814**	₱370,884,040

As of December 31, 2017 and 2016, the carrying values of the Company's financial instruments represent maximum exposure to credit risk at reporting date. The gross maximum exposure to credit risk of the Company approximates its net maximum exposure. There were no amounts that are set-off in accordance with the criteria in PAS 32, *Financial Instruments: Presentation*. There were no amounts subject to an enforceable master netting arrangement or similar agreement as of December 31, 2017 and 2016.

Since the Company transacts only with recognized, creditworthy third parties, there is no requirement for collateral. Insurance receivables and loans and receivables are highly collectible. Cash and cash equivalents are placed with reputable financial institution.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

December 31, 2017

	Neither past due nor impaired			**Past due**	
	High	**Medium**	**Low**	**or impaired**	**Total**
Cash and cash equivalents (excluding cash on hand)	**₱56,311,156**	**₱–**	**₱–**	**₱–**	**₱56,311,156**
Short-term investments	**75,221,137**	**–**	**–**	**–**	**75,221,137**
Insurance receivables:					
Premiums receivable	**30,042,375**	**27,628,141**	**21,080,265**	**2,846,437**	**81,597,218**
Reinsurance recoverable on paid losses	**506,370**		**–**	**12,449,957**	**12,956,327**
Due from ceding companies	**159,010**		**–**	**9,147,652**	**9,306,662**
Funds held by ceding companies	**–**	**–**	**–**	**1,059,191**	**1,059,191**
FVPL financial assets	**29,856,079**	**–**	**–**	**–**	**29,856,079**
AFS financial assets	**44,505,535**	**–**	**–**	**3,321,000**	**47,826,535**
HTM investments	**137,663,787**	**–**	**–**	**–**	**137,663,787**
Loans and receivables:					
Receivables from employees	**5,834,052**	**–**	**–**	**–**	**5,834,052**
Accrued interest income	**1,152,720**	**–**	**–**	**–**	**1,152,720**
Accrued dividend income	**398,950**	**–**	**–**	**–**	**398,950**
	₱381,651,171	**₱27,628,141**	**₱21,080,265**	**28,824,237**	**₱459,183,814**

December 31, 2016

	Neither past due nor impaired			Past due	
	High	Medium	Low	or impaired	Total
Cash and cash equivalents (excluding cash on hand)	₱47,387,181	₱–	₱–	₱–	₱47,387,181
Short-term investments	32,409,760	–	–	–	32,409,760
Insurance receivables:					
Premiums receivable	24,769,555	30,031,699	25,184,819	5,516,917	85,502,990
Reinsurance recoverable on paid losses	2,934,387	–	–	10,403,737	13,338,124
Due from ceding companies	2,134,943	–	–	4,981,534	7,116,477
Funds held by ceding companies	–	–	–	1,059,191	1,059,191
FVPL financial assets	29,858,244	–	–	–	29,858,244
AFS financial assets	29,119,404	–	–	22,344,287	51,463,691
HTM investments	93,062,742	–	–	–	93,062,742
Loans and receivables:					
Accounts receivable	3,789,600	–	–	–	3,789,600
Receivables from employees	4,766,209	–	–	–	4,766,209
Accrued interest income	873,606	–	–	–	873,606
Accrued dividend income	256,225	–	–	–	256,225
	₱271,361,856	₱30,031,699	₱25,184,819	₱44,305,665	₱370,884,040

The credit quality of the financial assets was classified by the Company as High grade, Medium grade and Low grade. High grade pertains to assets of the Company that are highly convertible to cash based on the Company's experience and those that are classified by the IC as readily admitted assets. Medium and low grade pertains to assets of the Company that are beyond the 30-day credit term and 60-day credit term, respectively, based on the Company's experience. Past due are those that are beyond the 90-day credit term which are still collectible as these are corporate accounts wherein the Company has reciprocity of business.

The tables below show the analysis by age of financial assets that are past due but are not impaired.

December 31, 2017

	Neither past due nor impaired	**Age analysis of financial assets past due but not impaired**				**Total Past due but not impaired**	**Past due and Impaired**	**Total**
		< 30 days	**31 to 60 days**	**61 to 90 days**	**> 90 days**			
Insurance receivables								
Premiums receivable	**₱78,750,781**	**₱2,846,437**	**₱–**	**₱–**	**₱–**	**₱2,846,437**	**₱–**	**₱81,597,218**
Reinsurance recoverable on paid losses	**506,370**	**–**	**–**	**368,964**	**11,868,211**	**12,237,174**	**212,783**	**12,956,327**
Due from ceding companies	**159,010**	**–**	**–**	**–**	**9,147,652**	**9,147,652**	**–**	**9,306,662**
Funds held by ceding companies					**1,059,191**	**1,059,191**	**–**	**1,059,191**
Financial assets								
FVPL	**29,856,079**	**–**	**–**	**–**	**–**	**–**	**–**	**29,856,079**
AFS	**47,826,535**	**–**	**–**	**–**	**–**	**–**	**–**	**47,826,535**
Total	**₱157,467,740**	**₱-**	**₱-**	**₱-**	**₱25,134,273**	**₱25,134,273**	**₱–**	**₱182,602,012**

December 31, 2016

	Neither past due nor impaired	Age analysis of financial assets past due but not impaired				Total Past due but not impaired	Past due and Impaired	Total
		< 30 days	31 to 60 days	61 to 90 days	> 90 days			
Insurance receivables								
Premiums receivable	₱79,986,073	₱5,516,917	₱–	₱–	₱–	₱5,516,917	₱–	₱85,502,990
Reinsurance recoverable on paid losses	2,934,387	3,396,790	1,635,492	–	5,158,672	10,190,954	212,783	13,338,124
Due from ceding companies	2,134,943	798,926	410,876	–	3,771,732	4,981,534	–	7,116,477
Funds held by ceding companies	–	–	–	–	1,059,191	1,059,191	–	1,059,191
Financial assets								
FVPL	29,858,244	–	–	–	–	–	–	29,858,244
AFS	51,463,691	–	–	–	–	–	–	51,463,691
Total	₱166,377,338	₱9,712,633	₱2,046,368	₱–	₱9,989,595	₱21,748,596	₱212,783	₱188,338,717

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

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

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

To strike the optimal balance between generating adequate investment returns and holding securities that can be easily sold for cash if required, the Company divides its investment portfolio into tranches with liquidity objectives and benchmarks. The Company's core liquidity portfolio is invested in relatively liquid securities that can be readily sold if required. In addition to the core portfolio, the Company maintains a second tranche of liquidity that is always invested in the most highly liquid securities to cover its expected operational cash flow needs.

Maturity profile
The tables below summarize the maturity profile of the financial assets and liabilities of the Company using undiscounted contractual maturities based on remaining contractual obligations, or for the insurance contract liabilities, based on the estimated timing of net cash outflows.

December 31, 2017	**Within a year***	**2-3 years**	**Over 3 years**	**No term**	**Total**
Loans and Receivables					
Cash and cash equivalent	**₱72,303,933**	**₱–**	**₱–**	**₱–**	**₱72,303,933**
Insurance receivables	**104,706,615**	**–**	**–**	**–**	**104,706,615**
Loans and receivables	**7,259,281**	**–**	**–**	**–**	**7,259,281**
HTM investments	**6,986,702**	**28,243,985**	**142,129,520**	**–**	**177,360,207**
AFS financial assets	**–**	**–**	**–**	**47,826,535**	**47,826,535**
FVPL financial assets	**–**	**–**	**–**	**29,856,079**	**29,856,079**
Total financial assets	**₱191,256,531**	**₱28,243,985**	**₱142,129,520**	**₱77,682,614**	**₱439,312,650**
Other Financial and Insurance Liabilities					
Insurance contract liabilities	**28,358,855**	**–**	**–**	**–**	**28,358,855**
Insurance payables	**14,395,650**	**–**	**–**	**–**	**14,395,650**
Accounts payable and other liabilities	**9,669,289**	**–**	**–**	**–**	**9,669,289**
Total financial liabilities	**₱52,423,794**	**₱–**	**₱–**	**₱–**	**₱52,423,794**

**Includes on demand accounts*

December 31, 2016	Within a year*	2-3 years	Over 3 years	No term	Total
Loans and Receivables					
Cash and cash equivalents	₱54,126,472	₱–	₱–	₱–	₱54,126,472
Insurance receivables	106,803,999	–	–	–	106,803,999
Loans and receivables	9,685,640	–	–	–	9,685,640
HTM investments	11,876,428	13,911,573	93,427,933	–	119,215,934
AFS financial assets	–	–	–	51,463,691	51,463,691
FVPL financial assets	–	–	–	29,858,244	29,858,244
Total financial assets	₱182,492,539	₱13,911,573	₱93,427,933	₱81,321,935	₱371,153,980
Other Financial and Insurance Liabilities					
Insurance contract liabilities	₱26,909,046	₱–	₱–	₱–	₱26,909,046
Insurance payables	12,402,452	–	–	–	12,402,452
Accounts payable and other liabilities	6,055,634	–	–	–	6,055,634
Total financial liabilities	₱45,367,132	₱–	₱–	₱–	₱45,367,132

**Includes on demand accounts*

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: Foreign exchange rate (currency risk), market interest rate (Fair value interest rate risk) and market price (equity price risk). The Company's market risk pertains only to equity price risk.

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

Equity Price risk
The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally AFS equity securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, limits on investment in each sector and market, and careful and planned use of derivative instruments.

The analysis below is performed for reasonably possible movements in Philippine Stock Exchange index (PSEi) with all other variables held constant, showing the impact on equity (that reflects adjustments on changes in fair value of AFS and FVPL financial assets).

Market Indices	**Year**	**Change in Variable**	**Impact on Equity**
PSEi	**2017**	**+17%**	**₱5,161,701**
		-17%	**(5,161,701)**
PSEi	2016	+4%	₱641,338
		-4%	(641,338)

The reasonably possible movements in PSEi are based on the Company's stock composite index for the past three years.

24. **Related Party Transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) parties owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control, or are controlled by, or under common control with, the Company; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individuals.

Compensation of key management personnel by benefit type follows:

	2017	2016
Short-term employee benefits	**₱7,182,676**	₱7,519,520
Post-employment benefits	**733,740**	897,120
	₱7,916,416	₱8,416,640

There are no agreements between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

Salary loans to key management personnel included under the caption "Receivables from employees" amounted to ₱2.50 million and ₱1.50 million as of December 31, 2017 and 2016 (see Note 7). These are interest-bearing, due and demandable, unsecured and not impaired.

In 2017 and 2016, the Company paid directors' fees to the Company's board of directors totaling ₱1.44 million and ₱0.77 million in 2017 and 2016, respectively.

25. Reconciliation of Net Income Under PFRS to Statutory Net Income

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

	2017	2016
PFRS net income	**₱53,916,221**	₱30,632,026
Adjustments for:		
Deferred acquisition costs - net	**(6,832,620)**	(2,755,095)
Difference in change in provision for unearned premiums - net	**–**	(460,726)
Tax effect of PFRS adjustments	**2,049,786**	964,746
Statutory net income	**₱49,133,387**	₱28,380,951

26. Lease Commitments

The Company is a lessee under noncancellable operating leases covering offices and service centers. The leases have terms of only one year, with renewal options and include annual escalation rate of 10%. The future minimum rental payments under these noncancellable operating leases are ₱4.60 million and ₱2.32 as of December 31, 2017 and 2016, respectively.

Rent expense charged against operations amounted to ₱8.56 million and ₱7.29 million in 2017 and 2016, respectively (see Note 20).

27. Contingencies

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes these will not have a material effect on the Company's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relative to these claims and other proceedings.

28. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recorded and settled.

	December 31, 2017		
	Less than 12 months	**Over 12 months**	**Total**
ASSETS			
Cash and Cash Equivalents	**₱72,303,993**	**₱–**	**₱72,303,993**
Short-term Investments	**75,221,137**	–	**75,221,137**
Insurance Receivables - net	**104,706,615**	–	**104,706,615**
Financial Assets			
Financial asset at fair value through profit and loss	**29,856,079**	–	**29,856,079**
Available-for-sale financial assets	–	**47,826,535**	**47,826,535**
Held-to-maturity investments	–	**137,663,787**	**137,663,787**
Loans and receivables	**7,385,722**	–	**7,385,722**
Reinsurance Assets	**30,112,450**	–	**30,112,450**
Deferred Acquisition Costs	**34,530,673**	–	**34,530,673**
Investment Properties	–	**135,873,128**	**135,873,128**
Property and Equipment - net	–	**15,772,701**	**15,772,701**
Pension Asset	–	**8,078,133**	**8,078,133**
Other Assets	**7,485,559**	–	**7,485,559**
	₱361,602,228	**₱345,214,284**	**₱706,816,512**
LIABILITIES			
Insurance contract liabilities	**₱186,219,469**	**₱–**	**₱186,319,469**
Insurance payables	**14,395,650**	–	**14,395,650**
Accounts payable and other liabilities	**31,333,145**	–	**31,333,145**
Deferred reinsurance commissions	**7,920,766**	–	**7,920,766**
Deferred tax liabilities - net	–	**3,040,686**	**3,040,686**
	₱239,869,030	**₱3,040,686**	**₱243,009,716**

	December 31, 2016 (As Restated)		
	Less than 12 months	Over 12 months	Total
ASSETS			
Cash and Cash Equivalents	₱54,126,472	₱–	₱54,126,472
Short-term Investments	32,409,760	–	32,409,760
Insurance Receivables - net	106,803,999	–	106,803,999
Financial Assets			
Financial asset at fair value through profit and loss	29,858,244	–	29,858,244
Available-for-sale financial assets	–	51,463,691	51,463,691
Held-to-maturity investments	11,454,668	81,608,074	93,062,742
Loans and receivables	9,685,640	–	9,685,640
Reinsurance Assets	26,542,645	–	26,542,645
Deferred Acquisition Costs	26,010,913	–	26,010,913
Investment Properties	–	135,637,388	135,637,388
Property and Equipment - net	–	15,454,429	15,454,429
Other Assets	9,776,980	–	9,776,980
	₱306,669,321	₱284,163,582	₱590,832,903

(Forward)

	December 31, 2016 (As Restated)		
	Less than 12 months	Over 12 months	Total
LIABILITIES			
Insurance contract liabilities	₱140,631,653	₱–	₱140,631,653
Insurance payables	12,402,452	–	12,402,452
Accounts payable and other liabilities	20,364,369	–	20,364,369
Deferred reinsurance commissions	6,233,626	–	6,233,626
Net pension liability	–	5,479,841	5,479,841
Deferred tax liabilities - net	–	883,856	883,856
	₱179,632,100	₱6,363,697	₱185,995,797

	January 1, 2016 (As Restated)		
	Less than 12 months	Over 12 months	Total
ASSETS			
Cash and Cash Equivalents	₱48,947,292	₱–	₱48,947,292
Short-term Investments	52,164,940	–	52,164,940
Insurance Receivables - net	90,410,479	–	90,410,479
Financial Assets			
Financial asset at fair value through profit and loss	18,558,336	–	18,558,336
Available-for-sale financial assets	–	55,754,848	55,754,848
Held-to-maturity investments	6,647,020	81,062,742	87,709,762
Loans and receivables	7,258,665		7,258,665
Reinsurance Assets	19,322,782	–	19,322,782
Deferred Acquisition Costs	21,943,930	–	21,943,930
Investment Properties	–	135,637,388	135,637,388
Property and Equipment - net	–	11,626,013	11,626,013
Other Assets	4,458,330	–	4,458,330
	₱269,711,774	₱284,080,991	₱553,792,765
LIABILITIES			
Insurance contract liabilities	₱126,052,839	₱–	₱126,052,839
Insurance payables	7,860,271	–	7,860,271
Accounts payable and other liabilities	41,825,229	–	41,825,229
Deferred reinsurance commissions	4,921,737	–	4,921,737
Net pension liability	–	1,519,185	1,519,185
Deferred tax liabilities - net	–	2,017,694	2,017,694
	₱180,660,076	₱3,536,879	184,196,955

29. Supplementary Tax Information under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

VAT

The Company is a VAT-registered with VAT output tax declaration of ₱32,969,855 for the year based on the amount collected of ₱274,748,802.

The Company has zero-rated and VAT exempt sales of goods and services amounted to ₱2,957,513.

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

Balance at beginning of the year	₱–
Current year's purchases:	
Services lodged under other accounts	20,236,192
Input VAT applied to Output VAT	20,236,192
Balance at end of the year	₱–

Documentary Stamp Tax (DST)
The Company paid/accrued DST on insurance policies amounting to ₱41,073,882 from earned premiums of ₱342,210,443 as of December 31, 2017.

Other Taxes and License Fees for 2017
This includes all other taxes, local and national, including real estate taxes, license and permit fees. Details consist of the following:

Local	
Real estate tax, licenses and other fees	₱1,188,954
Business permit	787,228
National	
VAT renewal fee	5,500
	₱1,981,682

Importations
The Company did not incur any excise tax in 2017.

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

Withholding taxes on compensation and benefits	₱7,898,583
Expanded withholding taxes	11,875,027
	₱19,773,610

Tax Contingencies
The Company has no final assessment notice and/or formal letter of demand from the Bureau of Internal Revenue (BIR) for alleged deficiency income tax, VAT and withholding tax. In addition, the Company has no pending tax case outside the BIR as of December 31, 2017.