

***Travellers Insurance &
Surety Corporation***

*Financial Statements
December 31, 2017 and 2016*

and

Independent Auditors' Report

Diaz Murillo Dalupan and Company

Certified Public Accountants

Independent Auditors' Report

The Board of Directors and Stockholders
TRAVELLERS INSURANCE & SURETY CORPORATION
10th Floor G.E. Antonino Building
T.M. Kalaw Ermita Manila

Opinion

We have audited the accompanying financial statements of **Travellers Insurance & Surety Corporation** 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 a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Travellers Insurance & Surety Corporation** 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 (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audits 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 audits 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 these 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.

Local in Touch, Global in Reach

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Auditors' Responsibilities for the Audits 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' 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.

Diaz Murillo Dalupan and Company


Ofelia S. Barroga
Partner

May 30, 2018

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Financial Position

	December 31	
	2017	2016
ASSETS		
Cash and cash equivalents - note 4	₱442,067,038	₱497,780,771
Insurance receivables (net) - note 5	164,425,901	164,822,758
Reinsurance assets (net) - note 6	38,631,392	33,171,693
Other receivables - note 7	60,104,811	21,069,379
Assets held for sale - note 12	9,068,268	27,190,268
Deferred acquisition costs (net) - note 10	66,689,224	50,829,675
Prepayments - note 11	5,786,921	5,447,002
Held-to-maturity (HTM) investments - note 8	215,516,605	131,399,765
Available-for-sale (AFS) financial assets (net) - note 9	3,341,646	2,509,368
Property and equipment (net) - note 13	65,340,762	18,990,378
Investment properties - note 14	47,220,417	58,386,723
Deferred tax assets - note 28	7,457,171	5,530,345
Other assets - note 15	6,622,787	8,577,934
TOTAL ASSETS	₱1,132,272,943	₱1,025,706,059
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable and accrued expenses - note 16	₱48,998,619	₱46,631,676
Loans payable - note 17	5,830,073	1,070,238
Insurance contract liabilities - note 18	226,250,470	192,555,863
Due to reinsurers - note 19	27,741,492	22,782,035
Retirement benefits obligation - note 20	13,296,074	10,684,467
Deferred tax liabilities - note 28	42,013,135	23,445,801
	364,129,863	297,170,080
Equity		
Capital stock - note 22	300,000,000	300,000,000
Contingency surplus	831,660	831,660
Contributed surplus- note 29	339,580,000	324,630,000
Remeasurement gain on retirement benefits obligation	2,480,349	2,839,395
Revaluation increment on land - notes 13 and 14	5,043,624	4,879,000
Revaluation reserve on AFS financial assets - note 9	1,145,845	313,567
Retained earnings	119,061,602	95,042,357
	768,143,080	728,535,979
TOTAL LIABILITIES AND EQUITY	₱1,132,272,943	₱1,025,706,059

(The accompanying notes are an integral part of these financial statements.)

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Comprehensive Income

	Years Ended December 31	
	2017	2016
UNDERWRITING INCOME		
Gross premium earned	₱502,294,872	₱396,770,086
Premium ceded	(21,451,674)	(25,604,214)
Net premiums on insurance - note 23	480,843,198	371,165,872
Commission income	6,989,575	8,511,791
GROSS UNDERWRITING INCOME	487,832,773	379,677,663
NET INSURANCE BENEFITS AND CLAIMS - note 25	87,841,012	56,720,230
DIRECT UNDERWRITING COSTS - note 26	296,335,667	253,188,640
	(384,176,679)	(309,908,870)
NET UNDERWRITING INCOME	103,656,094	69,768,793
OPERATING EXPENSES - note 27	(73,618,387)	(58,529,098)
INCOME FROM OPERATIONS	30,037,707	11,239,695
INVESTMENT AND OTHER INCOME (CHARGES) - note 24	15,543,994	6,403,877
INCOME BEFORE INCOME TAX	45,581,701	17,643,572
INCOME TAX EXPENSE - note 28		
Current	5,547,736	7,394,672
Deferred	16,014,720	(2,570,605)
	21,562,456	4,824,067
NET INCOME	24,019,245	12,819,505
OTHER COMPREHENSIVE INCOME		
Item that will not be reclassified subsequently to profit or loss:		
Remeasurement loss on retirement benefits obligation - note 20	(359,046)	-
Revaluation increment on land - note 13	164,624	-
TOTAL COMPREHENSIVE INCOME	₱23,824,823	₱12,819,505

(The accompanying notes are an integral part of these financial statements.)

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Changes in Equity

	Years Ended December 31	
	2017	2016
CAPITAL STOCK - note 22	₱300,000,000	₱300,000,000
CONTINGENCY SURPLUS	831,660	831,660
CONTRIBUTED SURPLUS - note 29		
Balance at beginning of year	324,630,000	260,480,000
Additional contribution during the year	14,950,000	64,150,000
Balance at end of year	339,580,000	324,630,000
REVALUATION INCREMENT IN LAND - notes 13 and 14		
Balance at beginning of year	4,879,000	4,879,000
Revaluation increase	164,624	-
Balance at end of year	5,043,624	4,879,000
REVALUATION RESERVE ON AFS		
FINANCIAL ASSETS - note 9		
Balance at beginning of year	313,567	195,213
Unrealized fair value gain	832,278	118,354
Balance at end year	1,145,845	313,567
RETAINED EARNINGS		
Balance at beginning of year	95,042,357	82,222,852
Net income for the year	24,019,245	12,819,505
Balance at end of year	119,061,602	95,042,357
REMEASUREMENT GAIN (LOSS) ON RETIREMENT		
BENEFITS OBLIGATION - note 20	2,480,349	2,839,395
TOTAL EQUITY	₱768,143,080	₱728,535,979

(The accompanying notes are an integral part of these financial statements.)

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Cash Flows

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱45,581,701	₱17,643,572
Adjustments for:		
Interest income - note 24	(5,429,893)	(6,178,981)
Depreciation and amortization - note 13	2,969,811	3,420,324
Provision for doubtful accounts - note 27	14,106,520	2,968,887
Retirement benefit costs - note 20	2,098,684	1,622,032
Provision for catastrophic losses	(182,186)	107,364
Provision for IBNR losses and claims handling expenses	10,638,000	-
Loss on disposal of properties - notes 12, 13 and 14	114,989	906,393
Unrealized foreign exchange gain	2,632	(110,342)
Fair value gain on investment properties - note 14	(8,687,316)	-
Operating income before working capital changes	61,212,942	20,379,249
Decrease (increase) in:		
Insurance receivables	(988,548)	42,203,060
Other receivables	(11,863,814)	1,334,828
Reinsurance assets	(10,124,699)	9,285,665
Deferred acquisition costs	(15,859,549)	(14,952,135)
Prepayments	(339,919)	7,268,232
Increase in:		
Accounts payable and accrued expenses	7,614,738	16,393,142
Insurance contract liabilities	27,903,793	57,950,915
Due to reinsurers	4,959,457	970,553
Cash generated from operations	62,514,401	140,833,509
Payment of retirement obligation - note 20	-	(564,868)
Interest received on cash in banks and other receivables	2,918,535	4,171,214
Income tax paid	(10,086,420)	(300,820)
Net cash provided by operating activities	55,346,516	144,139,035
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on cash equivalents and HTM financial assets	4,000,317	2,418,463
Additional investments in:		
HTM financial assets - note 8	(170,015,487)	(177,258,108)
Property and equipment - note 13	(5,050,012)	(2,838,950)
Investment properties - note 14	(1,108,748)	(22,893,856)
Proceeds from:		
Matured investments - note 8	84,424,089	144,491,958
Sale of properties - notes 12, 13 and 14	930,000	2,989,700
Decrease in other assets	1,955,148	8,291,393
Collection from advances to a related party - 31	16,387,181	54,140,562
Advances to a related party - note 31	(56,294,315)	-
Net cash provided by (used in) investing activities	(124,771,827)	9,341,162
<i>(Forwarded)</i>		

(Continued)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of capital stock - note 22	-	50,000,000
Additional contributed surplus - note 29	14,950,000	64,150,000
Payment of auto loans payable	(1,235,790)	(172,619)
Net cash provided by financing activities	13,714,210	113,977,381

**EFFECTS OF EXCHANGE RATE CHANGES ON CASH
AND CASH EQUIVALENTS**

	(2,632)	110,342
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(55,713,733)	267,567,920

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	497,780,771	230,212,851
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CASH AND CASH EQUIVALENTS AT END OF YEAR - note 4	₱442,067,038	₱497,780,771
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(The accompanying notes are an integral part of these financial statements.)

TRAVELLERS INSURANCE & SURETY CORPORATION

Notes to Financial Statements

As at and for the Years Ended December 31, 2017 and 2016

1. CORPORATE INFORMATION

Travellers Insurance & Surety Corporation (the Company) was registered with the Securities and Exchange Commission (SEC) on June 25, 1964. On June 25, 2014, the term for which the Company exists expired. The Company filed with Securities and Exchange Commission (SEC) an application for an amendment of its articles of incorporation extending the life of the Company to another fifty (50) years. The amended Certificate of Incorporation was issued by SEC on June 19, 2014.

The Company is engaged in the business of insurance, guaranty and reinsurance in any branches except life insurance, for a consideration. The Company is owned by a group of Filipino individuals and a domestic corporation.

The Insurance Commission (IC) granted the Company a license to transact certain class of insurance such as fire, marine, casualty and surety except customs bonds, which is renewable every year.

The registered office address of the Company is 10th Floor G.E. Antonino Building T.M. Kalaw Ermita Manila.

The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on May 30, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and investment properties, which are measured at fair value and land under property and equipment, which is carried at revalued amount. The Company presents its statements of financial position in the order of liquidity. An analysis regarding recovery of assets or settlement of liability within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 34.

The financial statements are presented in Philippine peso (₱), which is the Company's functional and presentation currency. All amounts are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Adoption of Valuation Standards for Non-Life Insurance Policy Reserves

On March 9, 2018, the Insurance Commission issued Circular Letter (CL) No. 2018-18 that requires nonlife insurance companies to implement the *Valuation Standards for Nonlife Insurance Policy Reserves* effective January 1, 2017. The Company adopted the new valuation standard in determining the premium liability and reserve prospectively beginning on January 1, 2017.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the following amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2017.

PAS 7 (Amendment), Statement of Cash Flows – Disclosure Initiative. The amendments require to provide disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in added disclosures to reflect the cash and non-cash changes in liabilities arising from financing activities.

PAS 12 (Amendment), Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses. These amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments also clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount. The amendments will not have an impact on the Company's financial statements as the Company has no debt instruments measured at fair value.

The amendments have no significant impact on the disclosures and amounts recognized on the Company's financial statements.

New accounting standards, interpretations and amendments to existing standards effective subsequent to January 1, 2017

Standards issued but not yet effective up to the date of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

PFRS 4 (Amendment), Insurance Contracts - Applying PFRS 9 Financial Instruments and PFRS 4 Insurance Contracts. The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4: (a) an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets (the "overlay approach"); and (b) an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4 (the "deferral approach"). The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. An entity would apply the overlay approach retrospectively to designated financial assets, when it first applies PFRS 9. An entity would apply the deferral approach for annual periods beginning on or after January 1, 2018. The amendments will not have an impact on the disclosures and amounts recognized in the Company's financial statements.

PFRS 9, Financial Instruments. The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. The standard is to be effective no earlier than the annual periods beginning January 1, 2018, with earlier application permitted.

The adoption of the standard will result in recognition of equity securities recognized as AFS financial assets to be measured at fair value with fair value changes taken to profit or loss, unless management will take the irrevocable option to take fair value changes to other comprehensive income. Financial instruments designated as fair value hedge and/or cash flow hedge and debt securities will continue to be measured at fair value and amortized cost, respectively, as at the end of the reporting period.

PFRS 15, Revenue from Contracts with Customers. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in that framework is that an entity should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps: (a) identify the contracts with customers; (b) identify the performance obligations in the contract; (c) determine the transaction price; (d) allocate the transaction price to the performance obligations in the contract; and (e) recognize revenue when the entity satisfies a performance obligation. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The standard will not have an impact in the measurement, recognition and disclosure of the Company's revenue.

PFRS 15, (Amendment), Clarifications to PFRS 15 Revenue from Contracts with Customers. This addresses clarifying amendments to PFRS 15 and introduced a transitional relief for entities applying the standard for the first time. The focus of these amendments is on clarifying the application of PFRS 15 when (a) identifying performance obligations by clarifying how to apply the concept of ‘distinct’, (b) determining whether an entity is acting as principal or an agent in a transaction by clarifying how to apply the control principle, and (c) assessing whether a license transfers to a customer over time or at a point in time by clarifying when a company’s activities significantly affect the intellectual property to which the customer has rights. The amendments also add two practical expedients to the transition requirements of PFRS 15 for completed contracts under the full retrospective transition approach and contract modifications at transition. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The standard will not have a significant impact in the measurement, recognition and disclosure of the Company’s revenue.

PFRS 16, Leases. This new standard introduces a single lessee accounting model to be applied to all leases, whilst substantially carries forward the lessor accounting requirements in PAS 17, Leases. Lessees recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than twelve (12) months, unless the underlying asset is of low value. Whereas, lessors continue to classify leases as operating leases or finance leases, and to account for those two types of leases differently. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The adoption of the standard will not have a significant impact on the recognition of lease expenses, noncurrent assets and liabilities.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments. This interpretation addresses how to apply the recognition and measurement requirements of PAS 12 Income Taxes when there is uncertainty over income tax treatments. This interpretation is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

Financial Instruments

Initial recognition, subsequent measurement and classification of financial instruments

The Company recognizes financial assets and financial liabilities in the statements of financial position when it 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 market place are recognized on the settlement date.

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments includes transaction costs, except for those financial assets and liabilities at fair value through profit or loss (FVPL) where the transaction costs are charged to expense in the period incurred.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) financial assets and AFS financial assets. The Company also classifies its financial liabilities into FVPL and other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading, unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in profit or loss under "Other Charges (Net)" as "Fair Value Change" account. Interest income on financial assets at FVPL is included in profit or loss under "Other Charges (Net)" as "Other Income" account.

Financial assets may be designated by management at initial recognition as at FVPL when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise, arise from measuring the assets or liabilities, or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets, which are managed, and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Company has no financial assets at FVPL as at December 31, 2017 and 2016.

Determination of fair value and fair value hierarchy

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.

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for both recurring fair value measurement, such as financial assets at FVPL, and for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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.

Fair value measurement disclosures of financial and non-financial assets are presented in Note 30 to the financial statements.

“Day 1” difference

When the transaction price in a non-active market is different from the fair value of 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” difference) in the statements of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data, which is not observable, the difference between the transaction price and model value is only recognized in the statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference amount.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated, taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within twelve (12) months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

As at December 31, 2017 and 2016, the Company’s loans and receivables consist of cash and cash equivalents, insurance receivables (net), portion of reinsurance assets (net), other receivables, claims fund, deposits and security funds presented under Other assets in the statements of financial position (see Notes 4, 5, 6, 7 and 15).

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash depending on the immediate cash requirements of the Company and are subject to an insignificant risk of change in value.

Insurance Receivables

Insurance receivables include premium-related balances due from policy holders, ceding companies and agents for insurance policy issued in the ordinary course of business, less allowance for impairment as at reporting date.

The Company apply the statutory guideline in evaluating impairment of insurance receivables wherein premiums remaining unpaid beyond a limit set by the IC are impaired. However, in recognizing impairment in the financial statements, the Company considers also several factors such as indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, unusual default or delinquency of payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

AFS financial assets

AFS financial assets are non-derivative financial assets that are designated in this category or are not classified in any of the three other categories. The Company designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in statements of comprehensive income under other comprehensive income as “Unrealized fair value gain (loss) on AFS financial assets”, net of deferred income tax effect. When fair value cannot be reliably measured, AFS financial assets are measured at cost less any impairment in value.

When the investment is disposed or determined to be impaired, the cumulative gains or losses recognized in other comprehensive income is reclassified from equity to the income statement as reclassification adjustment. The amount of the cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on the financial assets previously recognized in the statements of comprehensive income.

Impairment loss recognized in the statements of comprehensive income for an investment in an equity instrument classified as AFS is not reversed through the statements of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in the statements of comprehensive income.

As at December 31, 2017 and 2016, the Company’s AFS financial assets consist of equity securities such as golf club share and publicly traded shares of stock (see Note 9).

HTM investments

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM investments when the Company’s management has the positive intention and ability to hold the investment to maturity. Investments intended to be held for an undefined period are not included in this category. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Gains and losses are recognized in the statements of comprehensive income when the investments are derecognized or impaired, as well as through the amortization process.

As at December 31, 2017 and 2016, the Company's HTM investments consist of investments in government securities and agrarian reform bonds (see Note 8).

Financial Liabilities at FVPL

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Company as at FVPL upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Company has no financial liabilities at FVPL as at December 31, 2017 and 2016.

Other financial liabilities

Other financial liabilities are initially recognized at fair value, less directly attributable transaction costs. After initial recognition, these are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the statements of comprehensive income when the liabilities are derecognized as well as through the amortization process.

As at December 31, 2017 and 2016, the Company's other financial liabilities consist of accounts payable and accrued expenses (excluding statutory payables and other liabilities), loans payable, portion of insurance contract liabilities and due to reinsurers (see Notes 16, 17, 18 and 19).

Impairment of financial assets

The Company assesses at end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the contracted parties or a group of contracted parties 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.

(a) Financial assets carried at cost

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

(b) Loans and receivables and HTM investments

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed 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 of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the statements of comprehensive income.

If in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the statements of comprehensive income under "Other income(charges)" account. Any subsequent reversal of an impairment loss is recognized in the statements of comprehensive to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company.

(c) AFS financial assets

For AFS financial assets, the Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in fair value of the investments below its cost. The determination of what is “significant” or “prolonged” requires judgment. The Company treats “significant” generally as 20% or more and “prolonged” as greater than 12 months for quoted equity securities. 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 other comprehensive income is removed from other comprehensive income and recognized in the statements of comprehensive income.

Impairment losses on equity investments are not reversed through the statements of comprehensive income. Increases in fair value after impairment are recognized directly in other comprehensive income. In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost.

Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows, for the purpose of measuring impairment loss. Such accrual is recorded as “Interest income” in the statements of comprehensive income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statements of comprehensive income, the impairment loss is reversed through the statements of comprehensive income.

*Derecognition of financial assets and financial liabilities**(a) Financial assets*

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

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

Where the Company has transferred its rights 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 consideration that the Company could be required to repay.

(b) Financial liabilities

A financial liability is derecognized when the obligation under the liability was 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 the statements of comprehensive income.

Offsetting of financial instruments

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

Insurance Contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. 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 a significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 20% more than the benefits payable if the insured event did not occur. 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.

Insurance Contract Liabilities

i) General Insurance Contract Liabilities

Insurance contract liabilities 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 expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of insurance claims, particularly in respect of liability business, environmental and pollution exposures, 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 incurred but not recorded (IBNR) losses. The liability is derecognized, cancelled or has expired.

ii) Provision for Unearned Premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premiums. Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using 24th method. The change in the provision for unearned premiums is taken to the statements of comprehensive income in the order that revenue is recognized over the period of risk.

Further provisions are made to cover claims under unexpired insurance contracts, which may exceed the unearned premiums and the premiums due in respect of these contracts.

iii) Liability Adequacy Test (LAT)

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of unearned premiums net of related deferred acquisition cost asset. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the statements of comprehensive income by establishing an unexpired risk provision for losses arising from the LAT.

In 2017, the Company adopted the *Valuation Standards for Nonlife Insurance Policy Reserves* issued by IC. This requires that premium liabilities be determined by comparing the unearned premium reserves (UPR), net of deferred acquisition cost (DAC) and the computed unearned risk reserve (URR) required covering future claims and expenses. URR is calculated as the best estimate of future claims and expenses for all classes of business applying a Margin for Adverse Deviation (MfAD). If URR is greater, then the difference is as an additional reserve on top of UPR, otherwise, premium liabilities is equal the UPR.

Reinsurance Assets

The Company assumed and cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue 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. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

DACs

DACs consist of commission and other acquisition costs incurred during the financial period that varies with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods. DACs is capitalized and amortized over the life of the contract. All other acquisition costs are recognized as an expense when incurred.

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

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount. The impairment loss is charged to profit or loss. DACs is also considered in the LAT for each end of the reporting period.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred.

This includes the Company's input taxes, prepaid taxes, stationeries and office supplies and prepaid rent which are stated at cost, less any impairment in value.

Assets Held for Sale

The Company classifies assets as held for sale when their carrying amount is to be recovered principally through a sale transaction rather than continuing use and the sale is considered highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and to complete the plan must be initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one (1) year from the date of classification. However, events or circumstances may extend the period to complete the sale beyond one (1) year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the control of the Company and there is sufficient evidence that the Company remains committed to its plan to sell the asset.

These are stated at the lower of carrying amount and fair value less cost to sale and are not subject to depreciation upon classification as held for sale. At reporting date, assessment is performed to determine if properties under this account qualify to be classified as asset held for sale.

Property and Equipment

Land is measured at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated impairment losses. All other property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any costs directly attributable to bringing the assets to its working condition and location for its intended use.

Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted to an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation of property and equipment commences once the assets are available for use. Depreciation is computed using straight-line basis over the estimated useful lives of the assets such as follows:

Category	No. of years
Condominium office unit	50
Leasehold improvement	3
Transportation equipment	10
Furniture and fixtures	5
Office machine and other equipment	5

Leasehold improvements are depreciated over the expected useful lives or over the term of the lease, if shorter.

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

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

An item of property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

For asset carried at revalued amount, the increase is recognized in other comprehensive income and accumulated in equity under "Revaluation increment". However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss. If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in profit or loss. However, the decrease is recognized in other comprehensive income to the extent of any credit balance existing in the revaluation increment in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under "Revaluation increment".

The "Revaluation increment" included in equity in respect of the asset at revalued amount may be transferred directly to retained earnings when the asset is derecognized.

Investment Properties

Investment properties consist of various lands and a condominium unit held for capital appreciation or for earning rental. Investment properties are measured initially at cost, including transaction costs and subsequently carried at fair value. Fair value of investment properties reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are recognized in the profit or loss in the year in which they arise. Initial cost includes cost incurred initially to acquire an investment property and cost incurred subsequently to add to, replace part of, or service property. Costs of day-to-day servicing are expensed as incurred.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of comprehensive income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. 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 change in use.

Impairment of Nonfinancial Assets

At the end of each reporting period, the Company assesses whether there is any indication that any of its assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income in profit or loss.

Leases

Leases, which do not transfer to the Company substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments are recognized in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Company is a party to operating lease as a lessee on the office space it occupies and as lessor on the land and building it leases. Payments made and revenue from such operating leases (less any incentives received and given) are charged to statements of comprehensive income.

Income Taxes

The tax expense comprises current and deferred taxes. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted by the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

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

Retirement Benefits

The Company has an unfunded retirement benefits under defined benefit plan, which defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan asset, if any.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. The defined benefit cost comprises of the service cost, net interest on the defined benefit liability or asset and the rereasurement of net defined benefit liability or asset.

Service cost which includes current service cost, past service cost and gains or losses on non-routine settlements is recognized as expense in profit or loss. Past service cost is recognized when plan amendment or curtailment occurs. 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 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.

Remeasurement comprising actuarial gains and losses and return on plan asset is recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account "Remeasurement gain (loss) on retirement benefits obligation" is not reclassified to another equity account in subsequent periods. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

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

Equity

a) Capital stock

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are shown in equity as a deduction from the proceeds, net of tax. The excess of proceeds from issuance of shares over the par value is credit to share premium.

b) Retained earnings

Retained earnings represent accumulated earnings of the Company as disclosed in the statements of comprehensive income.

c) Contributed surplus

Contributed surplus represents contributions from stockholders to the Company in compliance with the requirements of the Insurance Code.

d) Contingency surplus

Contingency surplus represents contribution of the stockholders to cover any deficiency in the Margin of Solvency as required under the Insurance Code and can be withdrawn only upon approval of the IC.

Revenue Recognition

Revenue is recognized to the extent that the revenue can be reliably measured, it is probable that the economic benefits will flow to the Company, and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

a) Premium Revenue

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 relates to the unexpired periods of the policies at reporting date is accounted for as “Reserve for unearned premiums” and presented under “Insurance contract liabilities” of the statements of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as “Deferred reinsurance premiums” and presented under “Reinsurance assets” of the statements of financial position. The net changes in these accounts between each end of reporting periods are recognized in profit or loss.

b) Reinsurance Commission Income

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. Reinsurance commissions are deferred and are subject to the same amortization method as the related premiums ceded. Unamortized reinsurance commissions are shown in the statements of financial position as deferred reinsurance commission income.

c) Interest Income

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

d) Other Income

Other income is recognized when earned.

Expense Recognition

Cost and expenses are recognized in the statements of comprehensive income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

a) Benefits and claims

Benefits and claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. General insurance claims are recorded on the basis of notifications received.

b) Direct underwriting cost

Direct underwriting cost includes commission expenses and direct costs. Commission expenses represent payments to insurance intermediaries such as agents or agencies for direct business solicited by the Company. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as “Deferred acquisition cost” in the assets section of the statements of financial position. Direct costs include processing fees and allocated portion of common expenses.

c) Operating expenses

Operating expenses, which include general and administrative expenses, are recognized as expense as they are incurred.

Functional and Presentation Currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The financial statements are presented in Philippine Peso, which is the Company’s functional currency.

Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at reporting date. All foreign exchange gains and losses are recognized in the statements of comprehensive income.

Provision and Contingencies

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 with the amount of the obligation. 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, an increase in the provision due to the passage of time is recognized as an interest expense. When the Company expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statements of comprehensive income, net of any reimbursement.

Provision are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements, but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Related Party Relationships and Transactions

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities, which are under common control with the reporting entity and its key management personnel, directors or stockholders. An entity that is a post-employment benefit plan for the employees of the Company, if any and the key management personnel of the Company are also considered to be related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely the legal form.

Events After the Reporting Date

Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements, when material.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of any changes will be reflected in the financial statements of the Company as they become reasonably determinable.

Judgment

Distinction between Investment Property and Owner-occupied Property

In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the Company's operation. Some properties comprise a portion held to earn rentals and another portion held for use in rendering of services and for administrative purposes. If those portions held to earn rentals cannot be sold separately, the entire property is classified as investment property only if insignificant portion is held for use in the rendering of services and for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment. The Company's properties were classified as property and equipment and investment properties based on the above conditions.

Classification of Financial Instruments

The Company classifies a financial instrument, or its components on initial recognition as a financial asset, financial liability or equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, liability or equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

Financial assets are classified as FVPL financial assets, HTM investments, loans and receivables, and AFS financial assets, as appropriate. Financial liabilities, on the other hand, are classified as FVPL financial liabilities and other financial liabilities, as appropriate.

The Company determines the classification of its financial assets and liabilities based on the above conditions.

Impairment of Non-financial Assets

The Company assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the assets 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 asset or the strategy for overall business; and
- Significant negative industry or economic trends.

Based on management's assessment, there were no indicators of impairment on the Company's non-financial assets in 2017 and 2016.

Classification of Leases

The Company assesses at the inception of the lease whether an arrangement is finance or operating lease based on who bears substantially all the risks and benefits incidental to ownership of the leased item.

The Company has entered into contract of lease as a lessee for the office space of its head office and branches, and as a lessor on its condominium unit under investment property. The Company has determined who bears the significant risks and benefits of ownership on the properties by considering among others, the significance of the lease term as compared with the estimated useful life of the related asset. The Company accordingly accounted for the lease agreements for office space and investment property portfolio as operating lease.

Estimates

Impairment of Loans and Receivables

The Company maintains allowance for impairment at a level considered by management as adequate to provide for potential uncollectible loans and receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the status of the debtors' membership in the Company, the member's 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 continuous basis.

In addition to specific impairment against individually significant loans and receivables, the Company makes a collective impairment assessment against exposures, which, although not specifically identified as requiring a specific impairment, have a greater risk of default than when originally granted. This takes into consideration the Company's historical collection experience.

As at December 31, 2017 and 2016, the carrying amount of loans and receivables, net of allowance for impairment of ₱1,705,522, amounted to ₱698,318,580 and ₱713,533,100 (excluding cash on hand, deferred reinsurance premium, and salvage recoverable), respectively (see Notes 4, 5, 6, 7 and 15).

Estimation of Useful Lives of Property and Equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives are periodically reviewed and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amount of property and equipment, net of accumulated depreciation of ₱25,579,628 and ₱23,095,275, amounted to ₱65,340,762 and ₱18,990,378 as at December 31, 2017 and 2016, respectively (see Note 13).

Estimation of Claims Payable Arising from Insurance Contracts

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported 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. The primary technique adopted by management in estimating the cost of notified 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. In 2017, the Company adopted the new valuation standards for insurance policy reserves based on the guidelines per CL 2018-08 issued by IC.

The carrying value of insurance contract liabilities amounted to ₱226,250,470 and ₱192,555,863 as of December 31, 2017 and 2016, respectively (see Note 18).

Estimation of Retirement Benefits

The determination of the retirement benefit cost and obligation is dependent on management's assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20 and include, among others, discount rates and salary increase rates. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. 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 retirement obligations.

Retirement benefits obligation as at December 31, 2017 and 2016 amounted to ₱13,296,074 and ₱10,684,467, respectively (see Note 20).

Recognition of Deferred Tax Asset

The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The carrying amount of deferred tax assets as at December 31, 2017 and 2016 that are expected to be recoverable in future periods amounted to ₱7,457,171 and ₱5,530,345, respectively (see Note 28).

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2017	2016
Cash on hand	₱187,992	₱136,500
Cash in banks	437,474,994	472,947,838
Cash equivalents	4,404,052	24,696,433
	₱442,067,038	₱497,780,771

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents include deposits and placements, with maturities of thirty (30) to ninety (90) days, which can be withdrawn anytime depending on the immediate cash requirements of the Company and earn interest at effective rates ranging from 0.62% to 2.25% in 2017 and 2016.

Interest earned from cash and cash equivalent amounted to ₱1,639,000 and ₱2,801,012 in 2017 and 2016, respectively, and is included in interest income account under investment and other income (charges) in the statements of comprehensive income (see Note 24).

There is no restriction in the Company's cash and cash equivalents as at December 31, 2017 and 2016.

5. INSURANCE RECEIVABLES (NET)

This account consists of:

	2017	2016
Due from agents	₱93,190,136	₱90,471,616
Due from ceding companies	21,038,995	21,331,113
Premium receivable	51,902,292	54,725,551
	166,131,423	166,528,280
Less: allowance for impairment	(1,705,522)	(1,705,522)
	₱164,425,901	₱164,822,758

The allowance for impairment pertains to due from agents which are identified by management as doubtful as to collection.

Movements in the allowance for impairment are as follow:

	2017	2016
Balance at beginning of year	₱1,705,552	₱1,705,552
Provision – note 27	1,385,405	2,968,887
Write-off	(1,385,405)	(2,968,887)
Balance at end of year	₱1,705,552	₱1,705,552

The following table shows the aging information of insurance receivables:

December 31, 2017						
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Due from ceding companies	₱159,344	₱241,170	₱204,587	₱247,151	₱20,186,743	₱21,038,995
Premium receivables	999,928	1,421,579	1,389,387	3,159,035	44,932,363	51,902,292
Due from agents	-	72,254	235,003	1,892,747	90,990,132	93,190,136
	₱1,159,272	₱1,735,003	₱1,828,977	₱5,298,933	₱156,109,238	₱166,131,423
December 31, 2016						
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Due from ceding companies	₱183,594	₱187,392	₱64,655	₱187,634	₱20,707,838	₱21,331,113
Premium receivables	985,197	1,162,404	1,374,440	4,527,014	46,676,496	54,725,551
Due from agents	-	-	193,533	537,957	89,740,126	90,471,616
	₱1,168,791	₱1,349,796	₱1,632,628	₱5,252,605	₱157,124,460	₱166,528,280

Insurance receivables over 90 days amounting to ₱161,408,171 and ₱162,377,065 in 2017 and 2016, respectively, are considered inadmissible asset in accordance with the IC CL No. 2014-17.

The Company had written-off non-moving insurance receivables amounting to ₱1,385,405 and ₱2,968,887 as at December 31, 2017 and 2016, respectively, as presented in “Operating expenses” (see note 27).

In 2017, “Due from a ceding company” amounting to ₱397,683 was offset against the corresponding liability with the same reinsurer under “Due to reinsurer” liability account and had written-off the remaining balance under “Net insurance benefits and claims” expense account. This pertains to receivable from a suspended ceding company.

6. REINSURANCE ASSETS (NET)

This account consists of:

	2017	2016
Reinsurance recoverable on paid losses	₱14,752,195	₱13,795,279
Reinsurance recoverable on unpaid losses – note 18	5,186,068	1,699,357
Reinsurers’ share on provisions of IBNR losses - note 18	4,665,000	-
Deferred reinsurance premium – note 18	11,599,697	9,791,796
Premium reserve withheld by reinsurer	2,428,432	7,885,261
	₱38,631,392	₱33,171,693

The following table shows the reconciliation of changes in reinsurance recoverable:

	2017	2016
Balance at beginning of year	₱15,494,636	₱21,640,535
Reinsurers’ share from losses	(1,062,708)	(13,559,343)
Collection from reinsurers	5,506,335	7,413,444
Balance at end of year	₱19,938,263	₱15,494,636

The following table shows the reconciliation of changes in deferred reinsurance premiums:

	2017	2016
Balance at beginning of year	₱9,791,796	₱14,040,234
Reinsurers’ share from losses	23,259,575	21,355,776
Collection from reinsurers	(21,451,675)	(25,604,214)
Balance at end of year	₱11,599,696	₱9,791,796

In 2017, reinsurance recoverable on paid and unpaid losses amounting to ₱61,432 was offset against the corresponding liability with the same reinsurer under “Due to reinsurer” liability account and had written-off the remaining balance under “Net insurance benefits and claims” expense account. This pertains to receivable from a suspended ceding company.

7. OTHER RECEIVABLES

This account consists of:

	2017	2016
Advances to related parties – note 31	₱40,308,815	₱401,681
Mortgage loan receivable – note 31	13,047,266	14,000,000
Advances to employees	1,309,162	636,223
Salary loan receivable – note 31	2,695,351	1,619,193
Car loan receivable	401,341	415,226
Accrued interest receivable	75,612	90,013
Notarial fees receivable	-	318,272
Other nontrade receivables	2,267,264	3,588,771
	₱60,104,811	₱21,069,379

Other nontrade receivables consist mainly of unliquidated advances provided to the Company's branch managers for settlement of claims.

Interest earned from salary, mortgage and other loans, which have interest rates ranging from 10% to 12%, amounted to ₱1,328,145 and ₱1,186,602 in 2017 and 2016, respectively, is presented under investment and other income (charges) (see Note 24).

Movements in the allowance for impairment are as follow:

	2017	2016
Balance at beginning of year	₱-	₱-
Provision – note 27	12,721,115	-
Write-off	(12,721,115)	-
Balance at end of year	₱-	₱-

In 2017, the Company had written-off in full the receivables from agents amounting to ₱12,721,115. This pertained to documentary stamp tax on insurance policies advanced by the Company that are no longer collectible.

8. HTM INVESTMENTS

HTM investments consist of Philippine government securities and agrarian reform bonds with details as follow:

	2017	2016
Government securities:		
Treasury bills	₱160,706,157	₱64,216,548
Treasury notes	41,219,139	57,358,354
Agrarian reform bonds	13,591,309	9,824,863
	₱215,516,605	₱131,399,765

Government securities are deposited with the Bureau of Treasury of the Philippines as securities for the benefit of the policyholders and creditors of the Company in accordance with the provisions in the Insurance Code of the Philippines. These securities bear fixed interest rates ranging from 2.14% to 10% in 2017 and 2.13% to 10% in 2016.

Interest earned from HTM investments amounted to ₱2,462,748 and ₱2,191,367 in 2017 and 2016, respectively, and is presented under investment and other income (charges) (see Note 24).

The following table shows the reconciliation of HTM investments:

	2017	2016
Balance at beginning of year	₱131,399,765	₱98,925,835
Acquisitions	170,015,487	177,258,108
Maturities	(84,424,089)	(144,491,958)
	216,991,163	131,691,985
Amortization of premium	(1,474,558)	(292,220)
Balance at end of year	₱215,516,605	₱131,399,765

9. AFS FINANCIAL ASSETS (NET)

Movements in AFS financial assets are as follow:

	2017	2016
At acquisition cost:		
Listed shares of stock	₱1,315,801	₱1,315,801
Proprietary club share	880,000	880,000
	2,195,801	2,195,801
Revaluation reserve on AFS financial assets		
Balance at beginning of year	313,567	195,213
Increase in fair value	832,278	118,354
Balance at end of year	1,145,845	313,567
	₱3,341,646	₱2,509,368

The fair value of AFS financial assets has been determined directly by reference to the published price in an active market (i.e. stock exchange and broker's published price). As at December 31, 2017 and 2016, the Company has no intention to dispose its AFS investments.

10. DEFERRED ACQUISITION COSTS (net)

The movement of this account follows:

	2017	2016
Balance at beginning of year	₱50,829,675	₱35,877,540
Cost deferred during the year	142,373,509	112,008,664
Amortization during the year	(126,513,960)	(97,056,529)
Balance at end of year	₱66,689,224	₱50,829,675

The carrying amounts are net of deferred reinsurance commission income of ₱3,694,809 and ₱3,313,404 for the years ended December 31, 2017 and 2016, respectively. The Company did not provide for any impairment loss because the carrying amount of the account approximates its fair value.

11. PREPAYMENTS

This account consists of:

	2017	2016
Prepaid taxes	₱3,613,305	₱3,419,104
Stationeries and office supplies	1,907,147	1,646,540
Prepaid rent	266,469	224,243
Input value-added tax (VAT)	-	157,115
	₱5,786,921	₱5,447,002

Prepaid taxes refer to advance payments of value added taxes relative to the processing of motor vehicle insurance policies.

Stationeries and office supplies pertain to advance payments of insurance policy forms and other supplies for office use.

12. ASSETS HELD FOR SALE

This account consists of parcels of land acquired by the Company through purchase or recovered properties from surety policies previously recorded at estimated amount as Salvage recoverable under the Other assets account. Management's intention is to sell the properties in the near future.

Movement in this account is as follows:

	2017	2016
Balance at beginning of year	₱27,190,268	₱3,896,093
Transfers – notes 14 and 15	(18,122,000)	27,190,268
Disposal	-	(3,896,093)
Balance at end of year	₱9,068,268	₱27,190,268

Disposal in 2016 pertains to sale of properties previously classified as Salvage recoverable with a carrying amount of ₱3,896,093 for a consideration of ₱2,989,700. Loss on disposal of properties of ₱906,393 is presented under "Investment and other income (charges)" in the 2016 statement of comprehensive income (see Note 24).

Transfers

In 2016, the Company reclassified certain investment properties and salvage recoverable totaling ₱20,747,000 and ₱6,443,268, respectively from the *Investment properties* and *Other assets* accounts to the *Assets held for sale* account. The IC has recommended the disposal of such properties.

In 2017, the property located in Trece Martires City amounting to ₱18,122,000, which was included in the properties recommended by IC to be classified as asset held for sale in 2016, was transferred back to Investment property because the Management does not intend to sell the property in the near future. The Management requested approval from the IC that the property would be developed for future housing project for the Company's employees. The IC has pre-approved the request provided that the Company submits all the necessary documents. As at December 31, 2017, the Company is still in the process of completing the requirements to be submitted to IC

13. PROPERTY AND EQUIPMENT (NET)

The reconciliation of this account is as follows:

December 31, 2017

	Land	Condominium office unit	Leasehold improvement	Transportation equipment	Furniture and fixtures	Office machine and other equipment	Total
Cost							
Balance at beginning of year	₱-	₱14,272,121	₱4,277,303	₱4,222,299	₱6,039,309	₱13,274,621	₱42,085,653
Additions	368,100	-	270,797	7,728,500	1,245,602	1,432,638	11,045,637
Transfer – note 14	38,508,923	-	-	-	-	-	38,508,923
Disposal	-	-	-	(955,000)	-	-	(955,000)
Balance at end of year	38,877,023	14,272,121	4,548,100	10,995,799	7,284,911	14,707,259	90,685,213
Accumulated depreciation							
Balance at beginning of year	-	1,761,570	4,118,561	1,427,063	4,236,186	11,551,895	23,095,275
Depreciation and amortization	-	285,501	197,863	751,098	986,342	749,007	2,969,811
Disposal	-	-	-	(485,458)	-	-	(485,458)
Balance at end of year	-	2,047,071	4,316,424	1,692,703	5,222,528	12,300,902	25,579,628
Appraisal increase							
Balance at beginning of year	-	-	-	-	-	-	-
Additions	235,177	-	-	-	-	-	235,177
Balance at end of year	235,177	-	-	-	-	-	235,177
Carrying amount	₱39,112,200	₱12,225,050	₱231,676	₱9,303,096	₱2,062,383	₱2,406,357	₱65,340,762

December 31, 2016

	Land	Condominium office unit	Leasehold improvement	Transportation equipment	Furniture and fixtures	Office machine and other equipment	Total
Cost							
Balance at beginning of year	₱-	₱14,202,121	₱4,277,303	₱2,668,727	₱5,738,310	₱12,360,242	₱39,246,703
Additions	-	70,000	-	1,553,572	300,999	914,379	2,838,950
Balance at end of year	-	14,272,121	4,277,303	4,222,299	6,039,309	13,274,621	42,085,653
Accumulated depreciation							
Balance at beginning of year	-	1,376,349	2,806,336	1,088,584	3,419,894	10,983,788	19,674,951
Depreciation and amortization	-	385,221	1,312,225	338,479	816,292	568,107	3,420,324
Balance at end of year	-	1,761,570	4,118,561	1,427,063	4,236,186	11,551,895	23,095,275
Carrying amount	₱-	₱12,510,551	₱158,742	₱2,795,236	₱1,803,123	₱1,722,726	₱18,990,378

In 2017, transportation equipment with a cost of ₱955,000 and accumulated depreciation of ₱485,458 was disposed of for a consideration of ₱330,000 resulting in a loss of ₱139,542. The loss on disposal is included in “Investment and other income (charges)” in the 2017 statement of comprehensive income (see note 24).

Transfer

In 2017, the Company transferred the land property in Paco, Manila from *Investment property* account to *Property and equipment* account since the Management intends to use the property for the construction of its office building. As of December 31, 2017, land surveys and soil testing were already conducted to prepare the land for the construction activities. The Management plans to complete the construction of the office building within the next three years.

As at December 31, 2017, the fair value of the land amounted to at ₱39,112,200 based on the report from independent appraiser. The independent firm's appraisal and Management's assessment on fair value was arrived at using the Market Data Approach. In this approach, the value of a property is based on sales and listings of comparable properties registered within the vicinity. The increase in fair value, net of tax, amounting to ₱164,624 was presented under "Other comprehensive income" in the 2017 statement of comprehensive income.

Prior period adjustment

The addition to condominium office unit amounting to ₱1,008,750 in 2016 was reclassified to the *Investment property* account as at December 31, 2016 as this is related to site development cost of the land under the *Investment property* account. The adjustment resulted in decrease in condominium office unit under the *Property and equipment* account by ₱1,008,750 and increase in the *Investment property* account by the same amount.

Depreciation and amortization expenses are recognized as follows:

	2017	2016
Direct underwriting costs – note 26	₱890,944	₱1,026,097
Operating expenses – note 27	2,078,867	2,394,227
	₱2,969,811	₱3,420,324

14. INVESTMENT PROPERTIES

The Company's investment properties consist of:

	2017	2016
Land and land improvement	₱40,626,417	₱53,397,809
Condominium unit	6,594,000	4,988,914
	₱47,220,417	₱58,386,723

The reconciliation of investment properties is as follows:

	2017	2016
Cost:		
Balance at beginning of year	₱41,675,732	₱39,528,876
Additions and improvement during the year	1,108,748	22,893,856
Disposal during the year	(575,447)	-
Transferred to Property and equipment (land for office use) - note 13	(38,508,923)	-
Transferred from Asset held for sale - note 12	18,122,000	-
Reclassified to Assets held for sale - note 12	-	(20,747,000)
Balance at end of year	21,822,110	41,675,732
Fair value gain:		
Balance at beginning of year	16,710,991	16,710,991
Fair value gain during the year	8,687,316	-
Balance at end of year	25,398,307	16,710,991
	₱47,220,417	₱58,386,723

Additions and improvements

Additions in 2017 pertain to costs for backfilling of soil of the land property amounting to ₱1,108,748 while additions in 2016 pertain to acquisition of land amounting to ₱20,265,756 and cost for site development amounting to ₱2,628,100.

Disposal

On February 3, 2017, a parcel of land with a carrying amount of ₱575,447 consisting of fifty (50) square meters situated in Imus Cavite was sold for a consideration of ₱600,000 resulting in a gain of ₱24,553, and is included in “Investment and other income (charges)” in the 2017 statement of comprehensive income (see Note 24).

Transfers

In 2017, parcel of land with a carrying amount of ₱38,508,923 was transferred from Investment property to Property and equipment since the Management plans to use the property for the construction of the office building.

Certain assets held for sale amounting to ₱18,122,000 was also transferred back to Investment property as at December 31, 2017 because the Company does not intend to sell the assets in the near future.

Existing revaluation surplus of a property in Trece Martires City, which was transferred from Property and equipment to Investment property in 2009, amounting to ₱4,879,000 previously recognized in other comprehensive income is not transferred to profit or loss at the date of transfer. This will be transferred directly to retained earnings upon disposal.

Revaluation

In 2017, investment properties were revalued at ₱46,196,600 resulting in fair value gain of ₱8,687,316, which was presented under “Investment and other income (charges)” in the 2017 statement of comprehensive income (see Note 24). For all other investment properties, Management believes that their fair values approximate their carrying amounts as of December 31, 2017 and 2016. The independent firm’s appraisal and Management’s assessment on fair value was arrived at using the Market Data Approach. In this approach, the value of a property is based on sales and listings of comparable properties registered within the vicinity.

Based on the assessment performed, Management believes that investment properties are not impaired as at reporting date.

Operating expenses arising from these investment properties amounted to ₱38,700 and ₱92,160, in 2017 and 2016, respectively and are included in miscellaneous expenses under the *Operating expenses* (see Note 27) account. Rental income on certain investment properties amounted to ₱92,000 and ₱115,000 in 2017 and 2016, respectively and is included in rental income under the *Investment and other charges* account (see Note 24).

15. OTHER ASSETS

This account consists of:

	2017	2016
Claims fund	₱3,028,693	₱5,086,370
Deposit on rent, light and water	1,785,611	1,467,012
Salvage recoverable	1,745,661	1,961,139
Security fund	48,439	27,166
Others	14,383	36,247
	₱6,622,787	₱8,577,934

Salvage recoverable pertains to the estimated amount to be recovered by the Company from paid losses on surety policies issued.

The movement in salvage recoverable is as follows:

	2017	2016
Balance at beginning of year	₱1,961,139	₱10,209,545
Additions during the year	105,000	1,562,592
Reclassified to assets held for sale – note 12	-	(6,443,268)
Disposal	(320,478)	(2,307,583)
Write-off	-	(1,060,147)
Balance at end of year	₱1,745,661	₱1,961,139

Disposal pertains to payment for damages in a lost case against claimant.

In 2016, assets amounting to ₱1,060,147, and were included in salvage recoverable had been written off as they pertained to long outstanding bonds.

Claims fund represents Company's cash held by third parties as a collateral in the issuance of certain insurance policies and bail bond.

Security fund pertains to a guaranty fund deposited with the IC as required under the Insurance Code.

Other assets are considered inadmissible asset per Section 2013 of the Amended Insurance Code.

16. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

	2017	2016
Accounts payable	₱8,580,903	₱11,894,836
Income tax payable	4,137,818	9,385,613
Accrued expenses	418,410	666,108
SSS, Philhealth, HDMF and EC contributions payable	315,891	328,029
Other taxes payable	35,545,597	24,357,090
	₱48,998,619	₱46,631,676

Accounts payable are usually due within thirty (30) days and do not bear any interest.

Other taxes payable consists mainly of documentary stamps payable, local taxes payable, fire service tax payable and output tax payable.

17. LOANS PAYABLE

This account consists of:

	2017	2016
Loans payable	₱5,830,073	₱1,070,238
Less: Current portion	2,139,253	354,097
Noncurrent portion	₱3,690,820	₱716,141

In 2017, the Company executed car loan arrangements with a local bank for a total loan amount of ₱5,995,625 with terms ranging from thirty six (36) to sixty (60) months and average monthly interest of 0.96%. Total loan payments in 2017 amounted to ₱1,235,790.

Prior period adjustment

In 2017, the Company presented separately the auto loans from the *Accounts payable and accrued expenses* account for proper presentation and disclosure. As such, comparative figure in 2016 was also separately presented for consistency and comparability. The *Accounts payable and accrued expenses* account decreased by ₱1,070,238 in 2016 as a result of the separate presentation.

In 2016, the Company obtained an auto loan amounting to ₱1,242,857, with a term of thirty six (36) months and annual interest of 19%. Total payments from the loan in 2016 amounted to ₱172,619. This was previously recorded under Accounts payable in 2016 but reclassified to Loans payable for proper presentation.

The carrying value of vehicles held under chattel mortgage is ₱8,666,345 and ₱1,475,893 as at December 31, 2017 and 2016, respectively.

Interest expense on loans amounted to ₱508,256 and ₱50,751 in 2017 and 2016, respectively.

18. INSURANCE CONTRACT LIABILITIES

The Company obtained an actuarial valuation of the policy reserves from an independent actuary as at December 31, 2017, pursuant to CL 2018-18 and consistent with the Revised Financial Reporting Framework issued by IC.

This account consists of:

	2017			2016		
	Insurance contract liabilities	Reinsurers' share in liabilities – note 6	Net amount	Insurance contract liabilities	Reinsurers' share in liabilities – note 6	Net amount
Outstanding claims reserves	₱35,354,637	₱5,186,068	₱30,168,569	₱19,065,003	₱1,699,357	₱17,365,646
Provisions for IBNR losses	10,512,000	4,665,000	5,847,000	-	-	-
Claims handling expense	126,000	-	126,000	-	-	-
Total claims and losses	45,992,637	9,851,068	36,141,569	19,065,003	1,699,357	17,365,646
Reserve for unearned premiums	180,072,631	11,599,697	168,472,934	173,123,472	9,791,796	163,331,676
Catastrophic loss reserve	185,202	-	185,202	367,388	-	367,388
Total insurance contract liabilities	₱226,250,470	₱21,450,765	₱204,799,705	₱192,555,863	₱11,491,153	₱181,064,710

Total claims and losses include claims due and unpaid, claims in the course of settlement, and those which are incurred but not reported at a designated level of confidence, as well as direct and indirect expenses related to settling of outstanding claims.

Outstanding claims reserves pertain to actual claims reported and net of expected recoveries from salvage and subrogation. The amount for salvage and subrogation claimed during the year is considered immaterial.

Provisions for IBNR losses refer to the estimated amount to be provided for claims in respect of claim events that have occurred but have not been reported as of the valuation date. IBNR losses are calculated by subtracting the incurred losses from the estimated ultimate loss by accident year for each line of business. Estimated ultimate losses were computed on weighted averages based on the following approaches: Incurred Chain Ladder/Development Approach (IDA), Paid Chain Ladder/ Development Approach (PDA), Bornhuetter-Ferguson Incurred Approach (BFIA) and the Bornhuetter-Ferguson Paid Approach (BFPA).

Under IDA and PDA, reported incurred losses by accident year are multiplied by appropriate loss development factors to estimate ultimate losses. On the other hand, the actual incurred losses are added to the expected unreported losses under BFIA.

Claims handling expense pertains to the estimated amount of expenses for settling all claims, whether reported or unreported, outstanding as of valuation date. Allocated and unallocated loss adjustment expenses (LAE) were used in estimating the claims handling expenses based on Case Reserve Development Approach (CRDA) and the Paid-to Paid Approach (PPRA). Allocated LAE (ALAE) are direct expenses incurred and paid during the processing and settlement of individual claims. Unallocated LAE (ULAE) pertains to the indirect costs of claims processing, usually defined as the portion of the general and administrative expense (GAE) allocated to the claims department.

Under CRDA, outstanding ALAE payable by accident year are multiplied by appropriate case reserve development factors to estimate the unpaid ALAE. Under PPRA, an indicated ratio of calendar year paid ALAE to paid loss and ALAE was selected. This ratio is then multiplied to the estimated IBNR losses to calculate the estimated ALAE.

To calculate the unpaid ULAE, recent calendar year indications of paid ULAE ratios to paid losses and ALAE were calculated and used to select the projected ULAE ratio. Based on the actuarial report, the ULAE is not covered by reinsurance.

The selected ratios were then multiplied to the indicated outstanding and IBNR loss and ALAE reserves to get the indicated unpaid ULAE.

Movements in insurance contract liabilities and reinsurers' share in liabilities (reinsurance assets) are as follow:

	2017			2016		
	Gross amount	Reinsurance	Net amount	Gross amount	Reinsurance	Net amount
At January 1	₱19,065,003	₱1,699,357	₱17,365,646	₱25,497,444	₱6,855,226	₱18,642,218
Claims during the year – note 25	97,231,414	9,390,402	87,841,012	57,041,679	321,449	56,720,230
Claims paid – note 25	(70,303,780)	(1,238,691)	(69,065,089)	(63,474,120)	(5,477,318)	(57,996,802)
At December 31	₱45,992,637	₱9,851,068	₱36,141,569	₱19,065,003	₱1,699,357	₱17,365,646

Movement in reserve for unearned premiums is as follows:

	2017			2016		
	Gross amount	Reinsurance	Net amount	Gross amount	Reinsurance	Net amount
At January 1	₱173,123,473	₱9,791,797	₱163,331,676	₱108,740,117	₱14,040,235	₱94,699,882
New policies during the year – note 23	509,244,031	23,259,574	485,984,457	461,153,442	21,355,776	439,797,666
Premiums earned during the year – note 23	(502,294,872)	(21,451,674)	(480,843,198)	(396,770,086)	(25,604,214)	(371,165,872)
At December 31	₱180,072,632	₱11,599,697	₱168,472,935	₱173,123,473	₱9,791,797	₱163,331,676

In performing the actuarial valuation, assumptions are intended to bring the estimated liabilities at a 75% confidence level of assurance or sufficiency. MfAD used as at December 31, 2017 is 0% pursuant to CL No. 2018-19 allowing Companies to set the MfAD to be floored at 0% for 2017.

Loss development factors used in the actuarial projection techniques are based on the Company's historical loss experience supplemented with industry triangles.

19. DUE TO REINSURERS

Due to reinsurers amounting to ₱27,741,492 and ₱22,782,035 as of December 31, 2017 and 2016, respectively, pertain to amount of insurance liability assumed by the Company from the reinsurers.

20. RETIREMENT BENEFITS OBLIGATION

The Company maintains an unfunded and non-contributory retirement benefit plan covering its regular employees.

The Company obtained an actuarial valuation as at December 31, 2017 to update the retirement benefits cost and amount of contributions in accordance with the revised PAS 19. The computation of retirement benefit costs is based on Republic Act 7641, Retirement Law.

The retirement benefits cost recognized in profit or loss is as follows:

	2017	2016
Current service cost	₱1,589,035	₱1,162,810
Interest cost	509,649	459,222
	₱2,098,684	₱1,622,032

The retirement benefits cost is allocated as follows:

	2017	2016
Direct underwriting costs – note 26	₱1,469,079	₱648,813
Operating expenses – note 27	629,605	973,219
	₱2,098,684	₱1,622,032

The movements in retirement benefits obligation recognized in the statements of financial position are as follow:

	2017	2016
Balance at beginning of year	₱10,684,467	₱9,627,303
Interest cost	509,649	459,222
Current service cost	1,589,035	1,162,810
Benefits paid	-	(564,868)
Remeasurement loss	512,923	-
Balance at end of year	₱13,296,074	₱10,684,467

Remeasurement loss, net of tax, amounted to ₱359,046 and nil in 2017 and 2016, respectively.

The following actuarial assumptions were used to determine retirement benefits obligation:

	2017	2016
Discount rate	4.77%	4.77%
Salary increase rate	3%	3%

The discount rate as at December 31, 2017 and 2016 was calculated as the resulting single-weighted rate determined by computing the present value of the expected future benefit cash flows across valuation years using the zero coupon rate. The salary increase rate represents the projected increases in employee salaries.

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The Company has no plan asset as at December 31, 2017 and 2016.

Risk Arising from the Retirement Plan

The defined benefit plan is unfunded by ₱13,296,074 and ₱10,684,467 as at December 31, 2017 and 2016, respectively. While there is no minimum required funding, the amount without fund may expose the Company to cash flow risk for 10-15 years when a significant number of employees are expected to retire.

Maturity Profile of Undiscounted Benefit Payments

The maturity analysis on the Company's undiscounted benefit payments as at December 31, 2017 and 2016 is as follows:

December 31, 2017

	1 year and less	2 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	Over 21 years
Normal retirement	₱7,489,161	₱1,977,999	₱5,078,936	₱6,633,178	₱8,276,709	₱65,066,089

December 31, 2016

	1 year and less	2 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	Over 21 years
Normal retirement	₱2,967,584	₱1,030,348	₱2,486,498	₱4,334,844	₱3,987,741	₱42,181,120

Discount Rate Sensitivity

The following illustrates the sensitivity to a reasonably possible change in each key assumption, with all other variable held constant, of the Company's retirement benefits obligation. A +/-1% increase or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase. The impact on the Company's retirement benefit obligation as at December 31, 2017 which affects the Company's cash flow is as follows:

	Increase (decrease)	Present value of obligation	Increase (decrease) on retirement benefits obligation
Discount rate	+0.5%	₱13,349,496	₱53,422
	-0.5%	13,242,652	(53,422)
Salary increase	+1%	13,311,501	15,427
	-1%	13,280,647	(15,427)

21. **INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES**

Terms and Conditions

The major classes of general insurance written by the Company include motor, property, casualty, marine and engineering. Risks under these policies usually cover twelve-month duration.

For general insurance contracts, claims provisions (comprising provisions for claims reported by policy holders) 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 defined quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The measurement process primarily includes projections of future claims through use of historical experience statistics. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by geographical area and class of business. In addition, claims are usually assessed by loss adjusters.

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claims handling costs, claims inflation factors, and claim numbers for each accident year. Judgment is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumption includes variation in interest and delays in settlement.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The sensitivity of certain variables like legislative change, uncertainty in the estimation process, etc., is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at the reporting date.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

The table demonstrates the effect of change in key assumptions while other assumptions remain unchanged, if these assumptions were changed in a single calendar year. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact on the claims liabilities due to changes in assumptions, these assumptions changes had to be done on an individual basis. It should also be stressed that these assumptions are nonlinear and larger or smaller impacts cannot be easily gleaned from these results.

The figures shown below demonstrate the effect of 5% upward variation in either the net premiums earned or the loss development factor used in determining the estimated ultimate liabilities.

	2017	2016
Increase on gross liabilities	₱25,114,744	₱19,838,505
Increase on net liabilities	24,042,160	18,558,294
Decrease on income before income tax	(24,042,160)	(18,558,294)

The Company's estimation of ultimate liabilities may be impacted largely by the shift in the development trends of losses. However, the Company believes that using a statistical data over 10 years minimizes the margin of error in its estimates.

22. CAPITAL STOCK

Details of this account are as follow:

	Shares		Amount	
	2017	2016	2017	2016
Common shares – ₱100 par value				
Authorized – 3,000,000 shares	3,000,000	3,000,000	₱300,000,000	₱300,000,000
Subscribed and issued:				
Balance at beginning of year	3,000,000	2,500,000	₱300,000,000	₱250,000,000
Subscribed during the year	-	500,000	-	50,000,000
Balance at end of year	3,000,000	3,000,000	₱300,000,000	₱300,000,000

23. NET PREMIUM REVENUE

Details of gross and net premiums earned on insurance contracts follow:

	2017	2016
<u>Gross premium earned – note 18</u>		
Insurance contract premium revenue		
Direct insurance	₱484,918,908	₱419,414,148
Assumed reinsurance	24,325,123	41,739,294
Total insurance contract premiums revenue	509,244,031	461,153,442
Gross change in unearned premium provision	(6,949,159)	(64,383,356)
	502,294,872	396,770,086
<u>Premiums ceded – note 18</u>		
Reinsurer's share of premium revenue		
Direct insurance	23,259,574	21,355,776
Reinsurers' share of gross change in unearned premium		
Provision	(1,807,900)	4,248,438
	21,451,674	25,604,214
Net premiums on insurance	₱480,843,198	₱371,165,872

24. INVESTMENT AND OTHER INCOME (CHARGES)

This account consists of:

	2017	2016
Fair value gain in investment properties – note 14	₱8,687,316	₱-
Interest income – notes 4, 7 and 8	5,429,893	6,178,981
Rental income	638,760	621,930
Increase (decrease) of catastrophe loss	182,186	(107,364)
Loss on disposal of properties – notes 12, 13 and 14	(114,989)	(906,393)
Other income	720,828	616,723
	₱15,543,994	₱6,403,877

Other income consists mainly of gain on foreign exchange due to translation, provision for catastrophe loss and other incidental income.

25. NET INSURANCE BENEFITS AND CLAIMS

Gross insurance contracts benefits and claims incurred consist of the following:

	2017	2016
Insurance contracts benefits and claims		
Direct insurance	₱89,073,987	₱48,393,455
Assumed reinsurance	7,763,053	8,336,334
Loss adjustment	394,374	311,890
Total insurance contract benefits and claims – note 18	97,231,414	57,041,679
Total reinsurers' share of insurance contract benefits and claims incurred – note 18	(9,390,402)	(321,449)
Net insurance benefits and claims	₱87,841,012	₱56,720,230

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

	2017	2016
Direct insurance	₱57,481,353	₱54,825,896
Assumed	12,428,053	8,336,334
Loss adjustment	394,374	311,890
Total insurance contract benefits and claims paid – note 18	₱70,303,780	₱63,474,120

Reinsurers' share of gross insurance contracts benefits and claims paid consist of direct insurance amounting to ₱1,238,691 and ₱5,477,318 in 2017 and 2016, respectively (see Note 18).

26. DIRECT UNDERWRITING COSTS

This account consists of:

	2017	2016
Commission - direct	₱118,414,570	₱85,511,068
Processing fee	94,980,160	90,353,255
Underwriting expenses	17,875,344	17,426,535
Salaries, wages and allowances	10,465,459	9,259,812
Commission on reinsurance	10,400,401	14,234,619
Employee benefits	7,855,394	4,451,229
Representation and entertainment	6,502,793	2,791,506
Transportation and travel	6,238,253	5,950,673
Rent, light and water – note 32	5,172,585	4,432,299
Stationeries and office supplies	4,699,303	5,250,907
Postage, freight and communications	3,350,185	2,644,034
Advertising and promotions	1,739,481	2,028,671
Training expenses	1,696,685	2,308,668
Retirement benefits cost – note 20	1,469,079	648,813
Taxes and licenses	1,017,159	933,079
Dues and fees	1,016,277	833,851
Meetings and conferences	939,138	1,479,860
Depreciation and amortization – note 13	890,944	1,026,097
SSS, HDMF, PhilHealth and other contributions	592,502	605,983
Electronic data processing	367,478	414,248
Other underwriting expenses	652,477	603,433
	₱296,335,667	₱253,188,640

Other underwriting expenses consist of donation and contributions and other miscellaneous expenses.

27. OPERATING EXPENSES

This account consists of:

	2017	2016
Salaries and bonuses	₱19,377,243	₱17,196,794
Provision for doubtful accounts – notes 5 and 7	14,106,520	2,968,887
Professional fees	7,077,884	4,249,023
Representation and entertainment	4,335,128	1,861,004
Transportation and travel	4,158,836	3,967,115
Employee benefits	3,152,788	2,967,486
Rent, light and water – note 32	2,622,449	2,273,085
Dues and fees	2,371,312	1,945,652
Depreciation and amortization – note 13	2,078,867	2,394,227
Printing and office supplies	2,013,987	2,250,389
Interest and bank charges	1,702,079	763,219
Management fees – note 31	1,200,000	1,200,000
Advertising and promotion	1,159,654	1,352,447
SSS, HDMF, PhilHealth and other contributions	1,118,457	1,064,175
Repairs and maintenance	1,075,329	2,480,299
Per diem and board meetings	1,046,238	1,215,476
Communications	820,543	1,133,157
Notarial fees and documentary stamps	748,491	92,160
Training	659,822	897,815
Retirement benefits cost – note 20	629,605	973,219
Insurance	454,472	228,567
Electronic data processing expenses	157,491	177,535
Taxes and licenses	138,703	4,062,867
Books, subscriptions and periodicals	57,061	59,525
Miscellaneous	1,355,428	754,975
	₱73,618,387	₱58,529,098

28. INCOME TAXES

A reconciliation of tax on pretax income computed at the applicable statutory rate to tax expense reported in the statements of comprehensive income follows:

	2017	2016
Income before income tax	₱45,581,701	₱17,643,572
Accounting income at 30%	13,674,510	5,293,071
Tax effect of:		
Interest income subjected to final tax	(1,647,976)	(1,853,694)
Adjustment on tax rate of investment property	7,087,337	-
Non-deductible interest expense	479,354	191,708
Other non-deductible expenses	1,969,231	1,192,982
Reported income tax expense	₱21,562,456	₱4,824,067

The Company's deferred tax assets consist of:

	2017	2016
Retirement benefits obligation	₱3,988,822	₱3,205,340
Provision on IBNR losses and claims handling fee	1,791,900	-
Deferred reinsurance commissions	1,108,443	994,021
Excess of MCIT over normal income tax	-	709,111
Provision for impairment losses	511,656	511,656
Provision for catastrophe loss	55,561	110,217
Unrealized foreign exchange loss	789	-
	₱7,457,171	₱5,530,345

The Company's deferred tax liabilities consist of:

	2017	2016
Deferred acquisition cost	₱21,115,210	₱16,242,923
Deferred reinsurance premium	3,479,909	2,937,539
Revaluation increment on land	13,626,919	3,862,834
Unrealized foreign exchange gain	-	33,102
Excess of unearned premium per tax basis over books	3,791,097	369,403
	₱42,013,135	₱23,445,801

The Company applied the MCIT amounting to ₱709,111 in 2015 against the RCIT of ₱5,547,736 for 2017 taxable year.

29. MANAGEMENT OF CAPITAL, INSURANCE AND FINANCIAL RISK

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing group-wide policies on market, credit, liquidity, insurance and operational risk.

The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

Capital Management Framework

The Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly the anticipated impact on the realistic financial position and revenue account of each business unit, are reported to the Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

Section 200 of the Amended Insurance Code provides that an insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital and net worth requirements as prescribed by the Commissioner.

Risk Based Capital (RBC) Requirement

On October 5, 2006, the IC approved the guidelines on the adoption in the Philippines of the RBC framework for all registered non-life insurance companies. This requires every insurance company to annually maintain a minimum RBC ratio of 100% and should not fail with the trend test, which shall occur in the event that:

- The RBC ratio is less than 125% but is not below 100%
- The RBC ratio has decreased over the past year, and
- The difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%.

If the Company will not be able to maintain the required minimum ratio, they may be subjected to regulatory intervention depending on the level of its RBC ratio.

The RBC ratio shall be calculated as net worth divided by the RBC requirement. Net worth shall consist of the Company's paid-up capital, retained earnings and unimpaired surplus. Revaluation and fluctuation reserve shall form part of the net worth only to the extent authorized by the IC.

The following table shows how the RBC ratio as at December 31, 2017 and 2016 is determined by the Company:

	2017	2016
Net worth	₱621,908,528	₱618,134,381
RBC requirement	228,070,695	223,468,254
RBC ratio	272.68%	277%

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

As at December 31, 2017 and 2016, the Company is in compliance with the required RBC ratio by the IC.

Fixed Capitalization Requirement

On January 13, 2015, the IC issued CL no. 2015-02-A presenting the minimum capitalization requirements for all new and existing insurance companies. The circular is in line with the Amended Insurance Code.

On August 15, 2013, the Amended Insurance Code (Republic Act No. 10607) was approved which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis such as follow:

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

The minimum net worth shall remain unimpaired at all times.

The Company made an additional contribution of ₱14,950,000 and ₱64,150,000 in 2017 and 2016, respectively, to meet the capital requirements of the IC.

The Company's net worth amounting to ₱768 million and ₱729 million in 2017 and 2016, respectively, is in compliance with the minimum requirements for those periods.

Unimpaired Capital Requirement

IC CL No. 2015-02-A provides that all domestic life and non-life insurance companies duly licensed by the IC must have a net worth of at least ₱250 million by December 31, 2013 and the minimum net worth of these companies shall remain unimpaired at all times.

The Company's net worth as at December 31, 2017 is pending review by IC. As at June 2017, the actual net worth based on IC's evaluation amounted to ₱406 million which is deficient by ₱143 million. However, such deficiency was covered after considering the subsequent cash infusion and premium reserves withheld by ceding company decreasing the net worth deficiency to ₱22 million.

Under Sections 203 and 213 of the Amended Insurance Code and IC's circular letter no. 2014-17, the following assets are considered non-admitted assets in determination of the financial condition of the insurance company:

- a. Goodwill, trade names, and other like intangible assets.
- b. Prepaid or deferred charges for expenses and commissions paid by such insurance company.
- c. Advances to officers (other than policy loans), which are not adequately secured and which are not previously authorized by the Commissioner, as well as advances to employees, agents, and other persons on mere personal security.
- d. Shares of stock of such insurance company, owned by it, or any equity therein as well as loans secured thereby, or any proportionate interest in such shares of stock through the ownership by such insurance company of an interest in another corporation or business unit.
- e. Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies.
- f. Items of bank credits representing checks, drafts or notes returned unpaid after the date of statement.
- g. The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such insurance company exceeds the aggregate value thereof as determined in accordance with the provisions of this Code and/or the rules of the Commissioner.

All non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement submitted by an insurance company to the Commissioner, or in any insurance examiner's report to him, shall also be reported, to the extent of the value disallowed as deductions from the gross assets of such insurance company, except where the Commissioner permits a reserve to be carried among the liabilities of such insurance company in lieu of any such deduction. Also, any investment made in violation of the applicable provisions of this title shall be considered non-admitted assets.

In addition, premiums due from the following entities are considered non-admitted assets when the following conditions in IC's circular letter no. 2014-17 are not met:

- a. The Government of the Philippines, its political subdivisions or instrumentalities, including government owned or controlled corporations, whether as insured, general agent, insurance broker, mortgagee or trustee, provided that in case any of said entities assumes the role of a trustee, the insurance company concerned shall present proof that such premiums are held by such entity as trustee of the said company.
- b. Premiums Receivable Account (direct agents, general agents and insurance brokers) covering policies within 90 days from inception as of the cut-off date, provided that these receivables are supported by an aging schedule showing details per policy; and copies of policies and other pertinent documents are made available to the examiners for verification, otherwise, unverified accounts will be disallowed.
- c. Marine Hull Premiums covered by Deferred Premiums Clause "1" attached to the policy and payable in four quarterly installments provided that the installments to be considered as admitted assets are only the installments due within 90 days as of cut-off date including all installments not yet due as of the cut-off date and provided further that these receivables are supported by an aging schedule showing details per policy and copies of policies and other pertinent documents shall be made available to the examiners for verification, otherwise, those accounts not verified will be disallowed.

Financial Reporting Framework

On June 10, 2015, IC issued CL No. 2015-29 that clarifies the rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all the other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies. It includes the manual of accounts, which enumerates certain admitted assets not specifically listed in Section 202, which discusses the nature, types and recognition and measurement of each account in the financial statements. This CL will be fully implemented starting June 30, 2016, with transition cut-off date of January 1, 2016.

On December 28, 2016, IC issued CL No. 2016-65 which superseded the previous circular, indicating that insurance companies are required to comply with the financial reporting framework starting January 1, 2017.

Valuation Standards for Policy Reserves

Under sections 219 and 220 of the Insurance Code, as amended, these sections require every insurance company other than life to maintain a reserve for unearned premiums and other special reserves, IC issued Circular No. 2015-32 which provides the new set of Valuation standards for Non-Life Insurance Policy Reserves. The CL sets out the valuation method to be used by insurance companies in determining the level of reserves that they should maintain. Premium reserve will be aligned with the current practice under PFRS. Claims reserve specifically on IBNR will now be actuarially computed and an actuarial report must be submitted to IC following the report format provided in the said Circular. The actuarial report must include the certification of the Actuary and Chief Executive Officer (CEO) or responsible officer and must be duly notarized.

On December 28, 2016, IC issued CL No. 2016-67 which superseded the previous circular, indicating that insurance companies are required to comply with the valuation standards starting January 1, 2017.

On March 18, 2018, the IC issued CL No. 2018-18, which superseded CL No. 2016-67. The Circular sets out the revised valuation standards for non-life insurance policy reserves, which shall take effect retroactively starting January 1, 2017.

Regulatory Framework

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

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

Financial Risk

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

The risk that the Company primarily faces due to the nature of its investments and liabilities is the interest rate risk.

Market Risk

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

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

The Company's market risk includes equity price risk for the AFS financial assets, which are stated at fair value.

Equity Price Risk

The Company's equity price risk arises from its investments carried at fair value classified as AFS financial assets. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investment. The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the equity price had been 10% higher/lower, the revaluation reserve would increase/decrease by ₱334,165 and ₱250,937 in 2017 and 2016, respectively as a result of the change in the fair value of the Company's AFS financial assets.

Interest Rate Risk

As at December 31, 2017 and 2016, the Company is exposed to changes in market interest rates through its cash in banks, cash equivalents, HTM investments and other receivables (salary/mortgage/car loan), which are subject to variable interest rates (see Notes 4, 7 and 8). However for financial assets with short-term maturity, the risk is assessed by management as insignificant due to its relatively short-term nature and/or low interest rates.

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

December 31, 2017				
	Interest rate	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	0.62% to 2.25%	₱441,879,046	₱-	₱441,879,046
Other receivables	10% to 12%	-	16,143,958	16,143,958
HTM investments	2.13% to 10%	203,618,398	11,898,207	215,516,605
		₱645,497,444	₱28,042,165	₱673,539,609

December 31, 2016				
	Interest rate	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	0.62% to 2.25%	₱497,644,271	₱-	₱497,644,271
Other receivables	10% to 12%	-	16,034,419	16,034,419
HTM investments	2.13% to 10%	82,884,526	48,515,239	131,399,765
		₱580,528,797	₱64,549,658	₱645,078,455

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties, geographical and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Credit risk exposure

The table below shows the gross maximum exposure to credit risk of the Company as at December 31.

	2017	2016
Loans and receivables:		
Cash and cash equivalents*	₱441,879,046	₱497,644,271
Insurance receivables		
Due from ceding companies	21,038,995	21,331,113
Premium receivables	51,902,292	54,725,551
Due from agents	91,484,614	88,766,094
Other receivables**	57,837,547	17,480,608
Reinsurance assets:		
Reinsurance recoverable on paid losses	14,752,195	13,795,279
Reinsurance recoverable on unpaid losses	5,186,068	1,699,357
Reinsurers' share on provisions of IBNR losses	4,665,000	-
Premium withheld by reinsurers	2,428,433	7,885,261
Other assets***	4,877,126	6,616,795
Held-to-maturity investments	215,516,605	131,399,765
	₱911,567,921	₱841,344,094

*Excluding cash on hand amounting to ₱187,992 in 2017 and ₱136,500 in 2016.

**Excluding other nontrade receivables amounting to ₱2,267,264 in 2017 and ₱3,588,771 in 2016.

***Excluding salvage recoverable amounting to ₱1,745,661 in 2017 and ₱1,961,139 in 2016.

The Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it transacts significant volumes of transactions. Although, such arrangements do not generally result in offset of assets and liabilities in the statements of financial position, as transactions are usually settled on gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. The situation may however change substantially within a short period following the reporting date because the exposure is affected by transactions subject to the arrangement.

Reinsurance is placed with high-rated counterparties and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year and are subject to regular reviews. At each reporting date, management performs assessment of credit worthiness of reinsurers to update reinsurance purchase strategy.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commission due to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts. The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed on the expiry of which the policy is either paid up or terminated.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as at December 31, 2017 and 2016, except for a significant portion of cash and equivalents that is deposited to a single counterparty.

Concentrations of risk exist when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic conditions. Management believes that the concentrations described above do not represent excessive risk for the Company, since the single counterparty, which is a rural bank, is one of the top rural banks in the country.

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.

	Neither past due nor impaired			Past due but not impaired	Impaired financial assets	Total
	High	Medium	Low			
December 31, 2017						
Loans and receivables						
Cash and cash equivalents	₱441,879,046	₱-	₱-	₱-	₱-	₱441,879,046
Insurance receivables:						
Due from ceding companies	605,101	-	-	20,433,894	-	21,038,995
Premium receivables	3,810,894	-	-	48,091,398	-	51,902,292
Due from agents	235,003	-	-	91,249,611	1,705,522	93,190,136
Other receivables	36,740,128	-	-	21,097,419	12,721,115	70,558,662
Reinsurance assets:						
Reinsurance recoverable on paid losses	-	-	-	14,752,195	-	14,752,195
Reinsurance recoverable on unpaid losses and IBNR	-	-	-	9,851,068	-	9,851,068
Premium reserve withheld by Reinsurers	2,428,433	-	-	-	-	2,428,433
Other assets	4,877,126	-	-	-	-	4,877,126
Held-to-maturity investments	215,516,605	-	-	-	-	215,516,605
	₱706,092,336	₱-	₱-	₱205,475,585	₱14,426,637	₱925,994,558

December 31, 2016

	Neither past due nor impaired			Past due but not impaired	Impaired financial assets	Total
	High	Medium	Low			
Loans and receivables						
Cash and cash equivalents	₱497,644,271	₱-	₱-	₱-	₱-	₱497,644,271
Insurance receivables:						
Due from ceding companies	435,641	-	-	20,895,472	-	21,331,113
Premium receivables	3,522,041	-	-	51,203,510	-	54,725,551
Due from agents	193,533	-	-	88,572,561	1,705,522	90,471,616
Other receivables	14,474,119	-	-	3,006,489	-	17,480,608
Reinsurance assets:						
Reinsurance recoverable on paid losses	492,022	-	-	13,303,257	-	13,795,279
Reinsurance recoverable on unpaid losses	-	-	-	1,699,357	-	1,699,357
Premium reserve withheld by Reinsurers	7,885,261	-	-	-	-	7,885,261
Other assets	6,616,795	-	-	-	-	6,616,795
Held-to-maturity investments	131,399,765	-	-	-	-	131,399,765
	₱662,663,448	₱-	₱-	₱178,680,646	₱1,705,522	₱843,049,616

High Credit Quality

This 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.

Moderate Credit Quality

For receivables, this covers accounts of paying insured and or remittance of agents, but paid and or remitted normally beyond the credit term. This also includes receivables from insured and or agent with delayed payment and or remittance, although paid and or remitted but was only made after a demand letter was sent.

Low Credit Quality

For receivables, this covers accounts of slow paying insured and or remittance of agents, and those whose payments and or remittances are received upon sending a second demand letter as at financial reporting date.

Aging analysis of financial assets

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

December 31, 2017						
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Insurance receivables:						
Due from ceding companies	₱159,344	₱241,170	₱204,587	₱247,151	₱20,186,743	₱21,038,995
Premium receivables	999,928	1,421,579	1,389,387	3,159,035	44,932,363	51,902,292
Due from agents	-	72,254	235,003	1,892,747	90,990,132	93,190,136
Other receivables	420,174	866,959	990,485	754,546	1,845,685	4,877,849
Reinsurance assets:						
Reinsurance recoverable on paid losses	61,431	-	160,961	-	14,529,803	14,752,195
Reinsurance recoverable on unpaid and IBNR losses	-	-	-	-	9,851,068	9,851,068
	₱1,640,877	₱2,601,962	₱2,980,423	₱6,053,479	₱182,335,794	₱195,612,535
December 31, 2016						
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Insurance receivables:						
Due from ceding companies	₱183,594	₱187,392	₱64,655	₱187,634	₱20,707,838	₱21,331,113
Premium receivables	985,197	1,162,404	1,374,440	4,527,014	46,676,496	54,725,551
Due from agents	-	-	193,533	537,957	89,740,126	90,471,616
Other receivables	283,837	128,614	550,461	258,649	1,784,928	3,006,489
Reinsurance assets:						
Reinsurance recoverable on paid losses	77,348	-	-	202,310	13,023,599	13,303,257
Reinsurance recoverable on unpaid losses	-	-	-	-	1,699,357	1,699,357
	₱1,529,976	₱1,478,410	₱2,183,089	₱5,713,564	₱173,632,344	₱184,537,383

As at December 31, 2017 and 2016, insurance receivables of ₱1,705,522 are impaired and for which full provision has been recognized. The impaired receivables relate to a number of third parties, which are in unexpectedly difficult economic situations.

Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with insurance claims. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

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

The Company manages liquidity through a liquidity risk policy, which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; setting up of contingency funding plans; specifies the sources of funding and the events that would trigger the plan; concentration of funding sources; reporting of liquidity risk exposures and breaches to the monitoring authority; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

As at December 31, the Company's financial liabilities have contractual maturities such as follow:

December 31, 2017				
	Less than 1 year	1-5 years	More than 5 years	Total
Insurance contract liabilities				
claims and losses *	₱45,992,637	₱-	₱-	₱45,992,637
Due to reinsurers	27,741,492	-	-	27,741,492
Accounts payable and accrued expenses**				
Accounts payable	8,580,903	-	-	8,580,903
Accrued expenses	418,410	-	-	418,410
	₱82,733,442	₱-	₱-	₱82,733,442
December 31, 2016				
	Less than 1 year	1-5 years	More than 5 years	Total
Insurance contract liabilities				
claims and losses *	₱19,065,003	₱-	₱-	₱19,065,003
Due to reinsurers	22,782,035	-	-	22,782,035
Accounts payable and accrued expenses**				
Accounts payable	11,894,836	-	-	11,894,836
Accrued expenses	666,108	-	-	666,108
	₱54,407,982	₱-	₱-	₱54,407,982

*excludes reserves for unearned premium

**excludes statutory payables

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting date.

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 actual benefits paid which are greater than originally estimated and subsequent development of long-term claims.

The Company determines its concentration of insurance risk based on individual type of contract. The Company principally issued the following types of general insurance contracts: motor, household insurance, commercial and business interruption.

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

December 31, 2017	Gross claim liabilities	Reinsurers' share of claims liabilities	Net claim liabilities
Fire	₱1,791,039	₱1,271,424	₱519,615
Motor car	11,257,170	634,644	10,622,526
Marine	112,426	48,000	64,426
Bonds	18,348,006	1,000	18,347,006
Others	14,483,996	7,896,000	6,587,996
Total – note 18	₱45,992,637	₱9,851,068	₱36,141,569

December 31, 2016	Gross claim liabilities	Reinsurers' share of claims liabilities	Net claim liabilities
Fire	₱2,447,209	₱1,516,763	₱930,446
Motor car	6,052,365	-	6,052,365
Marine	1,118,426	4,086	1,114,340
Others	9,447,003	178,508	9,268,495
Total – note 18	₱19,065,003	₱1,699,357	₱17,365,646

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 risks insured and in respect of commercial and business interruption insurance by industry.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts and geographical areas, as a more diversified portfolio is less likely to be affected across the board by changes in any subset of the portfolio.

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

The majority of reinsurance business ceded is placed on a quota share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statements of financial position as reinsurance assets.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to the reinsurance ceded, to the extent that any reinsurers is unable to meet its obligations assumed under such reinsurance agreements.

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

Financial Assets and Financial Liabilities

The table below summarizes the maturity profile of the Company's financial assets, insurance liabilities and financial liabilities based on contractual undiscounted payments.

	2017			2016		
	Due within one year	Due beyond one year	Total	Due within one year	Due beyond one year	Total
Financial Assets						
Loans and receivables						
Cash and cash equivalents*	₱441,879,046	₱-	₱441,879,046	₱497,644,271	₱-	₱497,644,271
Insurance receivables						
Due from ceding						
Companies	21,038,995	-	21,038,995	21,331,113	-	21,331,113
Premiums receivables	51,902,292	-	51,902,292	54,725,551	-	54,725,551
Due from agents	91,484,614	-	91,484,614	88,766,094	-	88,766,094
Other receivables**	3,729,724	54,107,823	57,837,547	1,446,189	16,034,419	17,480,608
Reinsurance assets						
Reinsurance recoverable on paid losses	14,752,195	-	14,752,195	13,795,279	-	13,795,279
Reinsurance recoverable on unpaid and IBNR losses	9,851,068	-	9,851,068	1,699,357	-	1,699,357
Premium reserve						
withheld by reinsurers	2,428,433	-	2,428,433	7,885,261	-	7,885,261
Other assets***	3,091,513	1,785,611	4,877,124	5,149,783	1,467,012	6,616,795
HTM investments	203,618,398	11,898,207	215,516,605	82,884,526	48,515,239	131,399,765
AFS financial assets	-	3,341,646	3,341,646	-	2,509,368	2,509,368
	₱843,776,278	₱71,133,287	₱914,909,565	₱775,327,424	₱68,526,038	₱843,853,462

Other liabilities

Insurance						
contract liabilities						
Claims and losses	₱45,992,637	₱-	₱45,992,637	₱19,605,003	₱-	₱19,605,003
Due to reinsurers	27,741,492	-	27,741,492	22,782,035	-	22,782,035
Accounts payable and accrued expenses						
Accounts payable	8,580,903	-	8,580,903	11,894,836	-	11,894,836
Accrued expenses	418,410	-	418,410	666,108	-	666,108
	₱82,733,442	₱-	₱82,733,442	₱54,947,982	₱-	₱54,947,982

*Excluding cash on hand amounting to ₱187,992 in 2017 and ₱136,500 in 2016.

**Excluding other nontrade receivables amounting to ₱2,267,264 in 2017 and ₱3,588,771 in 2016.

***Excluding salvage recoverable amounting to ₱1,745,661 in 2017 and ₱1,961,139 in 2016.

30. FAIR VALUE INFORMATION

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follow:

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

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Financial asset measured at fair value

The fair value of AFS financial assets at December 31 is determined as follows:

	2017	2016	Fair value hierarchy
AFS financial assets	₱3,341,646	₱2,509,368	Level 1

Fair value of AFS financial assets is based on net asset value per share as published by Philippine Stock Exchange and club share broker.

Financial assets and liabilities not measured at fair value

The following gives information about how the fair values of the Company's financial assets and liabilities, which are not measured at fair value but the fair values, are disclosed at the end of each reporting period are determined.

Cash and cash equivalents, insurance receivables, short-term other receivables, reinsurance assets, other assets (current), insurance contract liabilities, due to reinsurers, accounts payable and accrued expenses.

Due to the short-term nature of these financial instruments, their fair value approximates the carrying amount as at reporting date. The carrying amount and fair value of the categories of noncurrent financial assets and liabilities presented in the statements of financial position are shown below:

	2017		2016	
	Carrying values	Fair values	Carrying values	Fair values
FINANCIAL ASSETS				
Loans and receivables				
Mortgage loan	₱13,047,266	₱16,508,143	₱14,000,000	₱17,468,121
Salary loan	2,695,351	3,410,311	1,619,193	2,020,304
Car loan	401,341	507,799	415,226	518,087
	₱16,143,958	20,426,253	16,034,419	20,006,512
Deposits	1,785,611	1,737,757	1,467,012	1,416,322
HTM investments	215,516,605	218,294,707	131,399,765	132,630,034
	₱233,446,174	₱240,458,717	₱148,901,196	₱154,052,868

Salary, mortgage and car loan receivables

Fair values are estimated using the discounted cash flow technique that makes use of Philippine Dealing Exchange rates of similar instruments in 2017 and 2016.

Deposit to service providers

Fair values are estimated using the discounted cash flow technique that makes use of risk-free interest rate of 2.68% and 3.46% in 2017 and 2016, respectively.

HTM investments

Fair values are based on quoted rates ranging from 3.39% to 4.63% and 3.7% to 7% in 2017 and 2016, respectively.

The aforementioned fair values of financial assets and liability are measured using level 2 of the fair value hierarchy.

Investment property measured at fair value

The fair value of the investment property was determined by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

The fair value of the land properties and condominium unit under investment properties amounting to ₱47,220,417 and ₱58,386,723 as at December 31, 2017 and 2016, respectively, which equals its carrying value, was determined based on market data approach and is based on sales and listings of comparable properties registered within the vicinity. In estimating the fair value of the land, the appraisal gave due consideration to the highest and best use of the property.

The fair values of the investment properties are measured using level 2 of the fair value hierarchy.

There were no transfers between levels 1 and 2 nor changes in level 3 instruments in 2017 and 2016.

31. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company has related party transactions with stockholders and officers.

The details of transactions are as follow:

- a) Advances

Related party/relationship	Amount of transaction		Outstanding balance - note 7		Terms and conditions
	2017	2016	2017	2016	
Individual Stockholder	₱54,749,807	₱-	₱38,764,307	₱-	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term and no impairment

Related party/relationship	Amount of transaction		Outstanding balance - note 7		Terms and conditions
	2017	2016	2017	2016	
Officers	1,544,508	-	1,544,508	401,681	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term and no impairment
	₱56,294,315		₱40,308,815	₱401,681	

The Company granted cash advances to an individual stockholder as financial support. Outstanding balances arising from the transaction are included in the “Other receivables” account in the statements of financial position. As at February 27, 2018, total subsequent collections amounted to ₱38,764,307.

Advances to officers pertain to bank accounts under the name of the officers and cash advances for the purpose of funding immediate cash requirement in the Company’s operations. Outstanding balances are included in the “Other receivables” account in the statements of financial position.

b) Loans to stockholders and officers who are individuals

Related party/relationship	Amount of transaction		Outstanding balance - note 7		Terms and conditions
	2017	2016	2017	2016	
1) Salary loans to stockholders and officers	₱-	₱-	₱633,000	₱633,000	Unsecured and unguaranteed, payable thru salary deduction at 12% per annum, with maximum term of 2 years and no impairment
2) Mortgage loans to stockholders and officers	-	14,000,000	13,047,266	14,000,000	Payable in cash at 12% per annum, with terms ranging from 2 to 5 years and no impairment

The Company granted salary loans and mortgage to its stockholders and officers as financial assistance. Outstanding balances arising from the transaction are included in the “Other receivables” account in the statements of financial position.

c) Management fee

Related party/relationship	Amount of transaction		Outstanding balance		Terms and conditions
	2017	2016	2017	2016	
Toptraders Import and Export Corporation (TIEC) – Stockholder	₱1,200,000	₱1,200,000	₱1,200,000	₱1,200,000	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term

The Company pays management fee to TIEC in connection with the services rendered such as payroll, human resource and internal audit services amounting to ₱100,000 from August 2011 to present. The total management fee expense incurred by the Company is presented under “Operating expenses” in the statements of comprehensive income.

Compensation of Key Management Personnel

The compensation of the Company’s key management personnel consists of short term and retirement benefits amounting to ₱9,777,881 and ₱9,183,689 in 2017 and 2016, respectively and is included as part of salaries and bonuses under operating expenses.

32. LEASE COMMITMENTS

The following are the significant commitments involving the Company:

Operating lease agreements represents contracts entered into by the Company’s head office and branch offices are as follow:

- a. The Company entered into a contract of lease with G.E. Antonino, Inc. for the use of office space. The leased premise is located at 10th floor “Suite B”, G.E. Antonino building, T.M. Kalaw St., Ermita, Manila. Lease term is for a period of three years, which commenced on January 1, 2017 and will end on December 31, 2019, renewable thereafter as may be agreed upon by the parties. The Company shall pay a rental fee of ₱255,490 inclusive of VAT every first five days of each calendar month with an escalation rate of three percent (3%) at every year.
- b. Lease of office space of the branches have terms of one to three years, renewable before the expiration of the contract.

Total rent expense for the years ended December 31, 2017 and 2016, presented under direct underwriting cost and operating expenses, amounted to ₱6,375,342 and ₱5,398,036, respectively.

Future minimum rentals payable under non-cancelable operating leases are as follow:

	2017	2016
Not later than one year	₱3,157,856	₱2,903,851
Later than one year and not later than five years	6,602,762	6,250,540
	₱9,760,618	₱9,154,391

33. CONTINGENCIES

The Company is a defendant in several lawsuits arising from the normal course of carrying out its insurance business. Provisions have been recognized in the financial statements to cover liabilities that may arise as a result of adverse decisions that may be rendered by the courts. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice seriously the Company’s position with regard to the outcome of these claims.

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

December 31, 2017	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	₱442,067,038	₱-	₱442,067,038
Insurance receivables (net)	4,723,252	159,702,649	164,425,901
Reinsurance assets (net)	27,031,696	11,599,696	38,631,392
Other receivables	22,216,558	37,888,253	60,104,811
Deferred acquisition costs (net)	66,689,224	-	66,689,224
Prepayments	5,786,921	-	5,786,921
HTM investments	203,618,398	11,898,207	215,516,605
AFS financial assets (net)	-	3,341,646	3,341,646
Assets held for sale	9,068,268	-	9,068,268
Property and equipment (net)	-	65,340,762	65,340,762
Investment properties	-	47,220,417	47,220,417
Deferred tax assets	-	7,457,171	7,457,171
Other assets	3,091,513	3,531,274	6,622,787
Total assets	₱784,292,868	₱347,980,075	₱1,132,272,943
Liabilities			
Accounts payable and accrued expenses	₱6,824,359	₱42,174,260	₱48,998,619
Insurance contract liabilities	45,992,637	180,257,833	226,250,470
Due to reinsurers	27,741,492	-	27,741,492
Loans payable	2,139,253	3,690,820	5,830,073
Retirement benefits obligation	-	13,296,074	13,296,074
Deferred tax liabilities	-	42,013,135	42,013,135
Total liabilities	₱82,697,741	₱281,432,122	₱364,129,863

December 31, 2016	Less than 12 months	Over 12 months	Total
Assets			
Cash and cash equivalents	₱497,780,771	₱-	₱497,780,771
Insurance receivables (net)	4,151,214	160,671,544	164,822,758
Reinsurance assets (net)	23,379,898	9,791,795	33,171,693
Other receivables	5,034,960	16,034,419	21,069,379
Deferred acquisition costs (net)	50,829,675	-	50,829,675
Prepayments	5,447,002	-	5,447,002
HTM investments	82,884,526	48,515,239	131,399,765
AFS financial assets (net)	-	2,509,368	2,509,368
Assets held for sale	27,190,268	-	27,190,268
Property and equipment (net)	-	18,990,378	18,990,378
Investment properties	-	58,386,723	58,386,723
Deferred tax assets	-	5,530,345	5,530,345
Other assets	5,149,783	3,428,151	8,577,934
Total assets	₱701,848,097	₱323,857,962	₱1,025,706,059
Liabilities			
Accounts payable and accrued expenses	₱13,277,085	₱33,354,591	₱46,631,676
Insurance contract liabilities	19,605,003	172,950,860	192,555,863
Due to reinsurers	22,782,035	-	22,782,035
Loans payable	354,097	716,141	1,070,238
Retirement benefits obligation	-	10,684,467	10,684,467
Deferred tax liabilities	-	23,445,801	23,445,801
Total liabilities	₱56,018,220	₱241,151,860	₱297,170,080

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