

***Travellers Insurance &
Surety Corporation***

*Financial Statements
December 31, 2018 and 2017*

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

Report on the Audits of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Travellers Insurance & Surety Corporation** which comprise the statements of financial position as at December 31, 2018 and 2017, 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, 2018 and 2017, 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.

Report on Supplementary Information Required under Revenue Regulations 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of Travellers Insurance & Surety Corporation. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

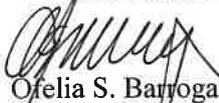
Diaz Murillo Dalupan and Company

Tax Identification No. 003-294-822

BOA/PRC No. 0234, effective until August 11, 2020

SEC Accreditation No. 0192-FR-3, Group A, effective until April 2, 2022

BIR Accreditation No. 08-001911-000-2019, effective until March 27, 2022



Ofelia S. Barroga

Partner

CPA Certificate No. 47189

SEC Accreditation No. 1090-AR-2, Group A, effective until May 17, 2020

Tax Identification No. 104-576-733

PTR No. 7344255, January 8, 2019, Makati City

BIR Accreditation No. 08-001911-006-2019, effective until April 9, 2022

June 14, 2019

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Financial Position

	December 31	
	2018	2017
ASSETS		
Cash and cash equivalents - note 4	₱268,226,667	₱442,067,038
Insurance receivables (net) - note 5	123,336,526	164,425,901
Reinsurance assets (net) - note 6	43,039,424	38,631,392
Other receivables (net) - note 7	60,968,988	60,104,811
Financial assets at fair value through profit or loss (FVPL) - note 8	7,671,200	-
Assets held for sale - note 13	9,068,268	9,068,268
Deferred acquisition costs (DAC) - note 11	108,340,295	66,689,224
Prepayments - note 12	7,678,744	5,786,921
Debt instruments at amortized cost - note 9	176,321,440	215,516,605
Financial assets at fair value through other comprehensive income (FVOCI) - note 10	3,308,332	3,341,646
Property and equipment (net) - note 14	100,772,659	65,340,762
Investment properties - note 15	597,809,210	47,220,417
Deferred tax assets - note 29	10,857,377	7,457,171
Other assets - note 16	73,929,118	6,622,787
TOTAL ASSETS	₱1,591,328,248	₱1,132,272,943
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable and accrued expenses - note 17	₱114,540,844	₱48,998,619
Loans payable - note 18	9,015,919	5,830,073
Insurance contract liabilities - note 19	260,558,992	226,250,470
Due to reinsurers - note 20	29,203,934	27,741,492
Retirement benefits obligation - note 21	17,715,586	13,296,074
Deferred tax liabilities - note 29	65,513,591	42,013,135
	496,548,866	364,129,863
Equity		
Capital stock - note 23	300,000,000	300,000,000
Deposit for future stock subscription - note 23	18,750,000	-
Contingency surplus	831,660	831,660
Contributed surplus- note 30	562,530,000	339,580,000
Remeasurement gain on retirement benefits obligation	1,062,666	2,480,349
Revaluation increment on land - notes 14 and 15	5,043,624	5,043,624
Revaluation reserve on financial assets at FVOCI	1,112,531	1,145,845
Retained earnings	205,448,901	119,061,602
	1,094,779,382	768,143,080
TOTAL LIABILITIES AND EQUITY	₱1,591,328,248	₱1,132,272,943

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

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Comprehensive Income

	Years Ended December 31	
	2018	2017
UNDERWRITING INCOME		
Gross premium earned	₱644,986,418	₱502,294,872
Premium ceded	(26,917,134)	(21,451,674)
Net premiums on insurance - note 24	618,069,284	480,843,198
Commission income	8,412,729	6,989,575
GROSS UNDERWRITING INCOME	626,482,013	487,832,773
NET INSURANCE BENEFITS AND CLAIMS - note 26	66,515,704	87,841,012
DIRECT UNDERWRITING COSTS - note 27	347,115,818	296,335,667
TOTAL DIRECT COSTS	(413,631,522)	(384,176,679)
NET UNDERWRITING INCOME	212,850,491	103,656,094
OPERATING EXPENSES - note 28	(85,316,514)	(73,618,387)
INCOME FROM OPERATIONS	127,533,977	30,037,707
INVESTMENT AND OTHER INCOME (CHARGES) - note 25	(7,060,098)	15,543,994
INCOME BEFORE INCOME TAX	120,473,879	45,581,701
INCOME TAX EXPENSE - note 29		
Current	13,378,751	5,547,736
Deferred	20,707,829	16,014,720
	34,086,580	21,562,456
NET INCOME	86,387,299	24,019,245
OTHER COMPREHENSIVE INCOME		
Item that will not be reclassified subsequently to profit or loss:		
Remeasurement loss on retirement benefits obligation - note 21	(1,417,683)	(359,046)
Revaluation increment on land - note 14	-	164,624
TOTAL COMPREHENSIVE INCOME	₱84,969,616	₱23,824,823

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

TRAVELLERS INSURANCE & SURETY CORPORATION
Statements of Changes in Equity

	Years Ended December 31	
	2018	2017
CAPITAL STOCK - note 23	₱300,000,000	₱300,000,000
DEPOSIT FOR STOCK SUBSCRIPTION - note 23		
Balance at beginning of year	-	-
Deposit during the year	18,750,000	-
Balance at end of year	18,750,000	-
CONTINGENCY SURPLUS	831,660	831,660
CONTRIBUTED SURPLUS - note 30		
Balance at beginning of year	339,580,000	324,630,000
Additional contribution during the year	222,950,000	14,950,000
Balance at end of year	562,530,000	339,580,000
REVALUATION INCREMENT IN LAND - notes 14 and 15		
Balance at beginning of year	5,043,624	4,879,000
Revaluation increase	-	164,624
Balance at end of year	5,043,624	5,043,624
REVALUATION RESERVE ON FINANCIAL ASSETS		
AT FVOCI - note 10		
Balance at beginning of year	1,145,845	313,567
Unrealized fair value gain(loss)	(33,314)	832,278
Balance at end year	1,112,531	1,145,845
RETAINED EARNINGS		
Balance at beginning of year	119,061,602	95,042,357
Net income for the year	86,387,299	24,019,245
Balance at end of year	205,448,901	119,061,602
REMEASUREMENT GAIN (LOSS) ON RETIREMENT		
BENEFITS OBLIGATION - note 21		
Balance at beginning of year	2,480,349	2,839,395
Actuarial loss during the year	(1,417,683)	(359,046)
Balance at end year	1,062,666	2,480,349
TOTAL EQUITY	₱1,094,779,382	₱768,143,080

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

TRAVELLERS INSURANCE & SURETY CORPORATION**Statements of Cash Flows**

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱120,473,879	₱45,581,701
Adjustments for:		
Interest income - note 25	(7,378,052)	(5,429,893)
Dividend income - note 8	(587,062)	-
Depreciation and amortization - note 14	3,717,696	2,969,811
Provision for expected credit losses (ECLs) - note 28	14,072,865	14,106,520
Retirement benefit costs - note 21	2,394,251	2,098,684
Provision for (decrease in) catastrophic losses	122,019	(182,186)
Provision for incurred but not reported (IBNR) losses and claims handling expenses with Margin for Adverse Deviation (MfAD)	2,589,111	10,638,000
Loss on disposal of properties - notes 14 and 15	-	114,989
Loss on sale of financial assets at FVPL - note 8	231,778	-
Fair value loss in financial assets at FVPL – note 8	781,156	-
Unrealized foreign exchange gain	(429,800)	(2,632)
Fair value gain on investment properties - note 15	-	(8,687,316)
Operating income before working capital changes	135,987,841	61,207,678
Decrease (increase) in:		
Insurance receivables	28,574,641	(988,548)
Other receivables	(35,991,265)	(11,863,814)
Reinsurance assets	(5,207,590)	(10,124,699)
Deferred acquisition costs	(41,651,071)	(15,859,549)
Prepayments	(1,891,823)	(339,919)
Increase in:		
Accounts payable and accrued expenses	59,304,987	7,614,738
Insurance contract liabilities	31,597,392	27,903,793
Due to reinsurers	1,462,442	4,959,457
Cash generated from operations	172,185,554	62,509,137
Interest received on cash in banks and other receivables	2,845,179	2,918,535
Income tax paid	(7,142,313)	(10,086,420)
Net cash provided by operating activities	167,888,420	55,341,252
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	4,591,143	4,000,317
Dividend income received	587,062	-
Additional investments in:		
Financial assets at FVPL - note 8	(789,059,573)	-
Debt instruments at amortized cost - note 9	(163,450,268)	(170,015,487)
Property and equipment - notes 14 and 18	(33,517,991)	(5,050,012)
Investment properties - note 15	(550,587,993)	(1,108,748)
<i>(Forwarded)</i>		

(Continued)

Proceeds from:

Sale of financial assets at FVPL	780,375,439	-
Matured investments - notes 8 and 9	202,645,433	84,424,089
Sale of properties - notes 13, 14 and 15	-	930,000
Deposits for stock and land investments	(67,623,400)	-
Additions to other assets	189,888	1,955,148
Collection from advances to a related party - 32	40,440,626	16,387,181
Advances to a related party - note 32	(6,003,201)	(56,294,315)
Net cash used in investing activities	(581,412,835)	(124,771,827)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds for future stock subscription - note 23	18,750,000	-
Additional contributed surplus - note 30	222,950,000	14,950,000
Payment of auto loans payable	(2,445,756)	(1,235,790)
Net cash provided by financing activities	239,254,244	13,714,210
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	429,800	2,632
NET DECREASE IN CASH AND CASH EQUIVALENTS	(173,840,371)	(55,713,733)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	442,067,038	497,780,771
CASH AND CASH EQUIVALENTS AT END OF YEAR - note 4	₱268,226,667	₱442,067,038

(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, 2018 and 2017

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 June 14, 2019.

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 financial assets at fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL) 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 35.

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.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2018.

PFRS 9, Financial Instruments (2014). The standard replaces PAS 39 *Financial Instruments: Recognition and Measurement* and brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting. The standard requires all recognized financial assets that are within the scope of PAS 39 to be subsequently measured at amortized cost or at fair value. Specifically, debt instruments 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 instruments and equity instruments are measured at their fair values at the end of subsequent reporting periods. For financial liabilities that are designated as at FVPL, 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.

PFRS 9 introduces an “expected credit loss” (ECL) model based on the concept of providing for expected losses at inception of a contract; recognition of a credit loss should no longer wait for there to be objective evidence of impairment.

The Company applied the requirements of PFRS 9 retrospectively. However, it did not result in restatement of account balances in comparative periods or any adjustment in the opening balance of retained earnings of the earliest period presented in the financial statements.

The adoption of the standard resulted in the following:

- Cash and cash equivalents, insurance receivables, reinsurance assets, other receivables and other assets previously classified as loans and receivables which are held-to-collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost.
- Investments in government securities and agrarian reform bonds previously classified as held-to-maturity (“HTM”) investments which are held to collect contractual cash flows are now classified as debt instruments at amortized cost.
- Equity securities such as golf club share and publicly traded shares of stock previously classified as available-for-sale financial assets (AFS) are now classified and measured as financial assets at FVOCI.

The changes in the classification and measurement of the Company's financial assets follow:

	PFRS 9			
	As at December 31, 2017		As at January 1, 2017	
	Amortized cost	FVOCI	Amortized cost	FVOCI
Loans and receivables				
Cash and cash equivalents	₱442,067,038	₱-	₱497,780,771	₱-
Insurance receivables, net	164,425,901	-	164,822,758	-
Reinsurance assets, net	38,631,392	-	33,171,693	-
Other receivables	60,104,811	-	21,069,379	-
HTM investments	215,516,605	-	131,399,765	-
AFS financial assets		3,341,646		2,509,368

The Company has not designated any financial liabilities as at FVPL. There are no changes in classification and measurement for the Company's financial liabilities.

Under PFRS 9, the level of provision for credit and impairment losses has generally increased due to the incorporation of a more forward-looking approach in determining provisions. PFRS 9 requires the Company to record an allowance for impairment losses for all financial assets at amortized cost and other debt financial assets not held at FVPL.

The Company assessed that the use of ECL upon adoption of PFRS 9 did not result in an adjustment to the impairment allowance of the Company's financial assets at amortized cost.

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.

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 adoption of PFRS 15 does not have a significant impact on the measurement, recognition and disclosure of the Company's revenue.

PFRS 2 (Amendment), Share-based Payment – Classification and Measurement of Share-based Payment Transactions. The amendments address the: (a) accounting for modifications to the terms and conditions of share-based payments that change the classification of the transaction from cash-settled to equity-settled; (b) accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; and (c) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations. The amendments have no significant impact on the disclosures and amounts recognized on the financial statements.

Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration. This interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation has no significant impact on the financial statements.

New accounting standards, interpretations and amendments to existing standards effective subsequent to January 1, 2018

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.

Annual Improvements to PFRSs 2014-2016 Cycle

PAS 12 (Amendment), Income Taxes – Income Tax Consequences of Payments on Financial Instruments Classified as Equity. The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

PAS 23 (Amendment), Borrowing Costs – Borrowing Costs Eligible for Capitalization. The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The above improvements are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.

The application of the above improvements will have no significant impact on the disclosures and amounts recognized on the Company's financial statements.

PAS 19 (Amendment), Employee Benefits – Plan Amendment, Curtailment or Settlement. The amendments clarify that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. The amendments also clarify how the requirements on accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

PFRS 9 (Amendment), Financial Instruments – Prepayment Features with Negative Compensation. This addresses the concerns about how PFRS 9 classifies particular prepayable financial assets. The amendments also include clarifications to the accounting for a modification or exchange of a financial liability that does not result in derecognition. The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The amendments will not have a significant impact on the disclosures and amounts recognized on the Company's financial statements.

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 result in recognition of an asset for the right to use the underlying asset over the lease term and a lease liability for the obligation to make lease payments in the statements of financial position. In addition, this will result in recognition of depreciation on the right-of-use asset and interest on lease liability in the statement of comprehensive income, and presentation of the total amount of cash paid into a principal portion and interest within financing activities in the statements of cash flows. The Company is currently assessing the impact of adopting this standard.

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.

PAS 1 (Amendment), Presentation of Financial Statements and PAS 8 (Amendment), Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material. The amendments clarify that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. The amendments will not have an impact on the disclosures and amounts recognized on the Company's financial statements.

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.

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 timeframe 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 FVPL where the transaction costs are charged to expense in the period incurred.

The Company classifies its financial assets as subsequently measured at amortized cost, FVOCI and FVPL.

The classification of debt instruments at amortized cost or at FVOCI depends on the financial asset’s contractual cash flow characteristics and the Company’s business model for managing the financial assets. The Company’s business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company’s business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at FVPL. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates or significantly reduces the measurement or recognition inconsistency and produce more relevant information.

Upon initial recognition, the Company may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity investment that is not held for trading. The classification is determined on an instrument-by-instrument basis.

The Company classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method or at FVPL.

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 “Investment and other income (charges)”.

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.

In 2018, the Company acquired financial assets at FVPL consisting of publicly traded shares of stock that are not considered equity instruments designated at FVOCI and do not meet the amortized cost criteria (see Note 8).

Financial Assets at Amortized Cost

Financial assets are measured at amortized when both of the following conditions are met:

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

After initial measurement, financial assets at amortized cost are subsequently measured using the effective interest method less allowance for impairment. Gains and losses are recognized in the statements of comprehensive income when the financial assets at amortized cost are derecognized, modified or impaired. 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.

As at December 31, 2018 and 2017, the Company’s financial assets at amortized costs 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, and debt instruments at amortized cost (see Notes 4, 5, 6, 7,9 and 16).

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 ECL as at reporting date.

The Company applies 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.

Debt instruments at amortized cost

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as debt instruments at amortized cost 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, debt instruments at amortized cost 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, 2018 and 2017, the Company's debt instruments at amortized cost consist of investments in government securities and agrarian reform bonds (see Note 9).

Debt instruments at FVOCI

The Company measures debt instruments at FVOCI when both of the following conditions are met:

- the instrument is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value gains and losses are recognized in other comprehensive income. Interest income, impairment losses or reversals, and foreign exchange gains and losses are recognized in profit or loss. Interest earned on investments is calculated using the effective interest method

When the debt instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. These financial assets are classified as noncurrent assets.

As at December 31, 2018 and 2017, the Company has no debt instruments at FVOCI.

Equity instruments at FVOCI

Upon initial recognition, the Company may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity investment that is not held for trading. The classification is determined on an instrument-by-instrument basis.

When the equity instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but is transferred to retained earnings. Dividends on such investments are recognized in profit or loss when the right of payment has been established, except when the dividends represent a recovery of part of the cost of the investment, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment. These financial assets are classified as noncurrent assets.

As at December 31, 2018 and 2017, the Company elected to classify irrevocably its equity investments under this category (see Note 10). This consists of consist of equity securities such as golf club share and publicly traded shares of stock.

Financial liabilities at amortized cost

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading, or designated as at FVPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

As at December 31, 2018 and 2017, the Company's financial liabilities at amortized cost 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 17, 18, 19 and 20).

Impairment of financial assets

The Company recognizes an allowance for ECLs for all debt instruments that are measured at amortized cost. ECLs are a probability-weighted estimate of credit losses over the expected life of the financial asset.

Credit losses are the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Company assesses at each end of the reporting period whether the credit risk on a financial asset has increased significantly since initial recognition. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to the lifetime ECLs. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to 12-month ECLs. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve (12) months after the reporting period.

When the credit risk on financial instruments for which lifetime ECLs have been recognized subsequently improves, and the requirement for recognizing lifetime ECLs is no longer met, the loss allowance is measured at an amount equal to 12-month ECL at the current reporting period, except for assets for which simplified approach was used.

The Company recognizes credit loss (reversals) in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the end of reporting period with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than thirty (30) days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the end of reporting period. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and;
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of „investment grade“ in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of „performing“. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of Default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than ninety (90) days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired Financial Assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off Policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one (1) year past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Company recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Amortized cost and effective interest method

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

Interest income is recognized under “Investment and other income (charges)” in 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.

a. 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.

ii) Liability Adequacy Test (LAT)

At each reporting date, LAT 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 Standard for Nonlife Insurance Policy Reserves* issued by IC. The standard provides for (i) the determination of premium liabilities based on the higher of unearned premium reserves (UPR), net of deferred acquisition cost (DAC) and the computed unearned risk reserve (URR); (ii) consideration of claims handling expense; and (iii) consideration of Margin for Adverse Deviation (MfAD) to allow for the inherent uncertainty of the best estimate of policy reserve.

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 are 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 are 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.

Input VAT is the indirect tax paid by the Company on the local purchase of goods or services from a VAT-registered person. Input tax is deducted against output tax in arriving at the VAT due and payable.

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 sell 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 in 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
Transportation equipment	10
Leasehold improvement	3
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, whichever is shorter.

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. Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss.

Construction in progress represents structures under construction and is stated at cost less any impairment in value. This includes the cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and are ready for use.

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 on land". 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 on land".

The "Revaluation increment on land" 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 parcels of land, land improvement, buildings, building improvements 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 cash generating units 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

Lease is classified at the inception period as a finance lease or an operating lease. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a) Company as lessee

The Company is a party to operating lease as a lessee on the office spaces it occupies. Payments made (less any incentives received and given) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

b) Company as a lessor

Lease revenue from operating leases pertaining to investment properties is recognized on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

A reassessment is made after the inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or (d) there is a substantial change to the asset.

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

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) Deposit for stock subscription

Deposit for future stock subscription represents payments made on subscription of shares which cannot be directly credited to capital stock due to pending registration with the SEC of the amendment to the Articles of Incorporation increasing the authorized capital stock. The paid-up subscription can be classified under equity if the nature of the transaction gives rise to a contractual obligation of the Company to deliver its own shares to the subscriber in exchange of the subscription amount. In addition, deposit for future stock subscription shall be classified under equity if all of the following elements are present as at reporting date:

- a) The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- b) There is Board of Directors' approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- c) There is stockholders' approval of said proposed increase; and
- d) The application for the approval of the proposed increase has been filed with the Commission.

c) Retained earnings

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

d) Contributed surplus

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

e) 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

Interest income is recognized on a time proportion basis using the effective interest method.

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.

Judgments

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

Classification and measurement of financial assets depends on the results of the business model and solely for payments of principal and interest test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortized cost or FVOCI that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

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 2018 and 2017.

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 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 properties. 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.

Recognition of revenue

The Company applies PFRS 15 five-step model framework in recognizing revenue. The Company's management exercised judgment in evaluating contracts with customers and reinsurers and other activities and in assessing the type of contract, the collectability of the consideration in exchange of the goods or service, and the related performance obligation.

Based on the Company's assessment, all of the contracts and arrangements with customers and other contracting parties generally undertake to provide single performance obligation at a fixed price which is mainly to provide insurance benefits within the contract period. The Company recognizes revenue from insurance and other activities when it is probable that the consideration in exchange for the goods or service would be collected.

Estimates

Impairment of Financial Assets at Amortized Cost

The Company maintains allowance for ECL at a level considered by management as adequate to provide for potential uncollectible financial assets at amortized cost. 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 customer's payment behavior and known market factors. The Company reviews

the age and status of financial assets 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, 2018 and 2017, the carrying amount of financial assets at amortized cost, net of allowance for ECL of ₱3,925,228 and ₱1,705,522, amounted to ₱486,072,822 and ₱698,318,579 (excluding cash on hand, deferred reinsurance premium, salvage recoverable, and deposit for future stocks and deposit on land under "Other assets"), respectively (see Notes 4, 5, 6, 7 and 16).

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 ₱29,297,324 and ₱25,579,628, amounted to ₱100,772,659 and ₱65,340,762 as at December 31, 2018 and 2017, respectively (see Note 14).

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 ₱260,558,992 and ₱226,250,470 as of December 31, 2018 and 2017, respectively (see Note 19).

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 21 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, 2018 and 2017 amounted to ₱17,715,586 and ₱13,296,074, respectively (see Note 21).

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 that are expected to be recoverable in future periods amounted to ₱10,857,377 and ₱7,457,171 as at December 31, 2018 and 2017, respectively (see Note 29).

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2018	2017
Cash on hand	₱187,526	₱187,992
Cash in banks	263,464,223	437,474,994
Cash equivalents	4,574,918	4,404,052
	₱268,226,667	₱442,067,038

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 2018 and 2017.

Interest earned from cash and cash equivalent amounted to ₱1,906,392 and ₱1,639,000 in 2018 and 2017, respectively, and is included in interest income account under investment and other income (charges) in the statements of comprehensive income (see Note 25).

There is no restriction in the Company's cash and cash equivalents as at December 31, 2018 and 2017.

5. INSURANCE RECEIVABLES (NET)

This account consists of:

	2018	2017
Premium receivable	₱65,086,759	₱51,902,292
Due from agents	40,930,152	93,190,136
Due from ceding companies	19,686,712	21,038,995
	125,703,623	166,131,423
Less: allowance for ECLs	(2,367,097)	(1,705,522)
	₱123,336,526	₱164,425,901

Due from agents pertain to the premium income collected by insurance agents/agencies on behalf of the Company.

Due from ceding companies pertains to the amount due to the Company as a result of facultative and treaty acceptances from authorized ceding companies.

Movements in the allowance for ECL are as follow:

	2018	2017
Balance at beginning of year	₱1,705,552	₱1,705,552
Provision for ECL – note 28	2,382,784	1,385,405
Write-off	(1,721,239)	(1,385,405)
Balance at end of year	₱2,367,097	₱1,705,552

The following table shows the aging information of insurance receivables:

December 31, 2018						
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
Premium receivables	₱9,061,814	₱12,189,561	₱10,649,575	₱5,745,976	₱27,439,833	₱65,086,759
Due from agents	-	2,536,448	3,193,489	5,060,383	30,139,832	40,930,152
Due from ceding companies	167,392	272,310	258,283	303,126	18,685,601	19,686,712
	₱9,229,206	₱14,998,319	₱14,101,347	₱11,109,485	₱76,265,266	₱125,703,623

December 31, 2017						
	1-30 days	31-60 days	61-90 days	91-120 days	Over 120 days	Total
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
Due from ceding companies	159,344	241,170	204,587	247,151	20,186,743	21,038,995
	₱1,159,272	₱1,735,003	₱1,828,977	₱5,298,933	₱156,109,238	₱166,131,423

Insurance receivables over 90 days amounting to ₱87,374,751 and ₱161,408,171 in 2018 and 2017, 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 ₱1,721,239 and ₱1,385,405 as at December 31, 2018 and 2017, respectively.

In 2018 and 2017, due from ceding companies amounting to ₱1,946,283 and ₱397,683, respectively, were offset against the corresponding liabilities 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 receivables from suspended ceding companies.

6. REINSURANCE ASSETS (NET)

This account consists of:

	2018	2017
Reinsurance recoverable on paid losses	₱14,077,714	₱14,752,195
Reinsurance recoverable on unpaid losses – note 19	11,472,848	5,186,068
Reinsurers’ share on provisions of IBNR losses - note 19	4,017,106	4,665,000
Deferred reinsurance premium – note 19	14,271,314	11,599,697
Premium reserve withheld by reinsurer	-	2,428,432
	43,838,982	38,631,392
Less: allowance for ECLs	(799,558)	-
	₱43,039,424	₱38,631,392

Reinsurance recoverable on paid losses pertains to the amount recoverable from reinsurance companies on account of claims on policies that were paid.

Deferred reinsurance premium pertains to the unexpired portion of the reinsurances premiums paid to reinsurers both under facultative and treaty acceptances.

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

	2018	2017
Balance at beginning of year	₱19,938,263	₱15,494,636
Reinsurers' share from losses	15,092,516	5,506,335
Collection from reinsurers	(9,480,217)	(1,062,708)
Balance at end of year	₱25,550,562	₱19,938,263

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

	2018	2017
Balance at beginning of year	₱11,599,696	₱9,791,796
Reinsurers' share from losses	30,525,757	23,259,575
Collection from reinsurers	(27,854,139)	(21,451,675)
Balance at end of year	₱14,271,314	₱11,599,696

In 2018 and 2017, reinsurance recoverable on paid and unpaid losses amounting to ₱4,788,271 and ₱61,432 were 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. These pertain to receivable from a suspended ceding company.

7. OTHER RECEIVABLES (NET)

This account consists of:

	2018	2017
Receivable from a third party – note 15	₱34,512,800	₱-
Mortgage loan receivable – note 32	12,015,455	13,047,266
Advances to related parties – note 32	6,040,843	40,308,815
Advances to employees	3,078,057	1,309,162
Salary loan receivable – note 32	3,131,767	2,695,351
Car loan receivable	972,200	401,341
Accrued interest receivable	17,342	75,612
Other nontrade receivables	1,831,916	2,267,264
	61,600,380	60,104,811
Less: allowance for ECLs- note 28	(631,392)	-
	₱60,968,988	₱60,104,811

Receivable from a third party in 2018 consists of receivable from a contractor for the refund of deposit made for the construction of a building that did not materialize. This is collectible in twenty-four (24) monthly installments with 1% monthly interest commencing on March 25, 2019 (see Note 15).

Interest earned from salary, mortgage and other loans, with interest rates ranging from 10% to 12%, amounted to ₱1,218,907 and ₱1,328,145 in 2018 and 2017, respectively, is presented under “Investment and other income (charges)” (see Note 25).

Movements in the allowance for ECL are as follow:

	2018	2017
Balance at beginning of year	₱-	₱-
Provision – note 28	10,763,342	12,721,115
Write-off	(10,131,950)	(12,721,115)
Balance at end of year	₱631,392	₱-

The Company had written-off in full the receivables from agents amounting to ₱10,131,950 and ₱12,721,115 in 2018 and 2017, respectively. This pertained to documentary stamp tax on insurance policies advanced by the Company that are no longer collectible.

8. FINANCIAL ASSETS AT FVPL

This account pertains to investment in publicly traded shares of stock acquired in 2018 that were carried at fair value as at December 31. Details follow:

	2018
Cost	
Acquisition	₱789,059,573
Disposals	(780,607,217)
	8,452,356
Fair value loss during the year	(781,156)
Balance at end of year	₱7,671,200

In 2018, financial assets at FVPL with cost of ₱780,607,217 were disposed of for a consideration of ₱780,375,439 resulting in a loss of ₱231,778. Dividend earned from the financial assets at fair value amounted to ₱587,062. Loss on sales of financial assets at FVPL and dividend income is included in “Investment and other income (charges)” in the 2018 statement of comprehensive income (see note 25).

The fair value has been determined directly by reference to published prices of broker. The fair value loss is presented under “Investment and other income (charges)” in the 2018 statement of comprehensive income.

9. DEBT INSTRUMENTS AT AMORTIZED COST

This account consists of Philippine government securities and agrarian reform bonds classified as HTM investments under PAS 39, but are now classified and measured as financial assets at amortized cost under PFRS 9. Details follow:

	2018	2017
Government securities:		
Treasury bills	₱154,587,879	₱160,706,157
Treasury notes	7,250,000	41,219,139
Agrarian reform bonds	14,483,561	13,591,309
	₱176,321,440	₱215,516,605

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 2018 and 2017.

Interest earned from debt instruments at amortized cost amounted to ₱4,252,753 and ₱2,462,748 in 2018 and 2017, respectively, and is presented under investment and other income (charges) (see Note 25).

The following table shows the reconciliation of debt instruments at amortized cost:

	2018	2017
Balance at beginning of year	₱215,516,605	₱131,399,765
Acquisitions	165,790,101	170,015,487
Maturities	(202,645,433)	(84,424,089)
	178,661,273	216,991,163
Amortization of premium	(2,339,833)	(1,474,558)
Balance at end of year	₱176,321,440	₱215,516,605

10. FINANCIAL ASSETS AT FVOCI

Movements in financial assets at FVOCI are as follow:

	2018	2017
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 financial assets at FVOCI		
Balance at beginning of year	1,145,845	313,567
Increase(decrease) in fair value	(33,314)	832,278
Balance at end of year	1,112,531	1,145,845
	₱3,308,332	₱3,341,646

The fair value of financial assets at FVOCI 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, 2018 and 2017, the Company has no intention to dispose its financial assets at FVOCI.

11. DAC

The movement of this account follows:

	2018	2017
Balance at beginning of year	₱66,689,224	₱50,829,675
Cost deferred during the year	208,889,054	137,684,945
Amortization during the year	(167,237,983)	(121,825,396)
Balance at end of year	₱108,340,295	₱66,689,224

The carrying amounts are net of deferred reinsurance commission income of ₱4,252,090 and ₱3,694,809 for the years ended December 31, 2018 and 2017, respectively. The Company did not provide for any impairment loss because the carrying amount of the account approximates its fair value.

Amortization for the year represents the direct commission expense of ₱175,650,712 and ₱128,814,971 net of commission income of ₱8,412,729 and ₱6,989,575 for the year ended December 31, 2018 and 2017, respectively.

12. PREPAYMENTS

This account consists of:

	2018	2017
Prepaid taxes	₱3,949,469	₱3,613,305
Stationeries and office supplies	2,217,236	1,907,147
Input value-added tax (VAT)	1,245,570	-
Prepaid rent	266,469	266,469
	₱7,678,744	₱5,786,921

Prepaid taxes refer to advance payments of value added taxes related 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.

13. 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 subsequent year.

Movement in this account is as follows:

	2018	2017
Balance at beginning of year	₱9,068,268	₱27,190,268
Transfers – notes 15 and 16	-	(18,122,000)
Balance at end of year	₱9,068,268	₱9,068,268

Transfers

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, 2018, the Company is still in the process of completing the requirements to be submitted to IC.

14. PROPERTY AND EQUIPMENT (NET)

The reconciliation of this account is as follows:

December 31, 2018

	Land	Condominium office unit	Construction in progress	Leasehold improvement	Transportation equipment	Furniture and fixtures	Office machinery and other equipment	Total
<u>Cost</u>								
Balance at beginning of year	₱38,877,023	₱14,272,121	₱-	₱4,548,100	₱10,995,799	₱7,284,911	₱14,707,259	₱90,685,213
Additions	-	-	6,861,059	65,000	7,079,000	570,011	24,574,523	39,149,593
Balance at end of year	38,877,023	14,272,121	6,861,059	4,613,100	18,074,799	7,854,922	39,281,782	129,834,806
<u>Accumulated depreciation</u>								
Balance at beginning of year	-	2,047,071	-	4,316,424	1,692,703	5,222,528	12,300,902	25,579,628
Depreciation and amortization	-	278,215	-	97,904	1,306,624	1,068,651	966,302	3,717,696
Balance at end of year	-	2,325,286	-	4,414,328	2,999,327	6,291,179	13,267,204	29,297,324
<u>Appraisal increase</u>								
Balance at beginning of year	235,177	-	-	-	-	-	-	235,177
Additions	-	-	-	-	-	-	-	-
Balance at end of year	235,177	-	-	-	-	-	-	235,177
Carrying amount	₱39,112,200	₱11,946,835	₱6,861,059	₱198,772	₱15,075,472	₱1,563,743	₱26,014,578	₱100,772,659

December 31, 2017

	Land	Condominium office unit	Construction in progress	Leasehold improvement	Transportation equipment	Furniture and fixtures	Office machine and other equipment	Total
<u>Cost</u>								
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 15	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
<u>Accumulated depreciation</u>								
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
<u>Appraisal increase</u>								
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

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 25).

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. In 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, 2018, the construction of the building has not yet started.

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.

Construction in progress in 2018 pertains to construction of an office branch. This includes cost of construction and other direct costs incurred.

Depreciation and amortization expenses are recognized as follows:

	2018	2017
Direct underwriting costs – note 27	₱1,106,282	₱890,944
Operating expenses – note 28	2,611,414	2,078,867
	₱3,717,696	₱2,969,811

The carrying value of Company’s transportation equipment held under chattel mortgage is ₱14,604,022 and ₱8,666,345 as at December 31, 2018 and 2017, respectively.

15. INVESTMENT PROPERTIES

The Company’s investment properties consist of:

	2018	2017
Land and land improvement	₱457,820,324	₱40,626,417
Buildings and building improvement	133,394,886	-
Condominium unit	6,594,000	6,594,000
	₱597,809,210	₱47,220,417

The reconciliation of investment properties is as follows:

	2018	2017
Cost:		
Balance at beginning of year	₱21,822,110	₱41,675,732
Additions and improvement during the year		
Buildings and building improvements	133,395,686	-
Land and land improvements	417,193,107	1,108,748
Disposal during the year	-	(575,447)
Transferred to Property and equipment (land for office use) - note 14	-	(38,508,923)
Transferred from Asset held for sale - note 13	-	18,122,000
Balance at end of year	572,410,903	21,822,110
Fair value gain:		
Balance at beginning of year	25,398,307	16,710,991
Fair value gain during the year	-	8,687,316
Balance at end of year	25,398,307	25,398,307
	₱597,809,210	₱47,220,417

Additions and improvements

Additions in 2018 and 2017 pertain to various acquisitions of properties and costs for backfilling of soil of a land property, respectively.

The details of the Company's newly acquired investment properties in 2018 are as follows:

Land and land improvements situated at:	
Inocencio, Trece Martirez	₱112,487,200
Antipolo, Rizal	74,312,865
Davao City	67,040,000
Cebu City	61,675,000
J. P. Rizal Makati, Manila	58,154,662
Laoag, Ilocos Norte	24,000,000
San Marcelino, Ermita, Manila	19,524,180
Buildings and building improvement	
Sta. Clara Batangas	31,344,150
Mariveles Bataan	102,049,936
	550,587,993

The Company entered into a construction agreement but was terminated since the contractor failed to comply with the terms and conditions. Under the construction agreement, the Company deposited ₱147 million which was returned by the contractor in the form of land located in Inocencio, Trece Martirez with a current market value of ₱112,487,200. The remaining balance of ₱34,512,800 shall be collected in twenty-four (24) monthly installments with 1% interest commencing on March 25, 2019. The uncollected balance is included in "Other receivables" in the 2018 statement of financial position (see note 7).

On August 20, 2018, the Company acquired properties owned by Interline Realty and Development Corp (IRDC), a third party and is a registered enterprise at Freeport Area of Bataan (FAB), for a total consideration of ₱80 million. The properties are inclusive of all the existing structures and pending improvements at the Interline Compound and the Company shall be subrogated to all the rights of IRDC, such as the collection of the rental income from its existing tenants on the properties. The acquired properties consist of hotel and restaurant constructed on the land leased by IRDC from FAB. After acquisition, the Company made improvements to the properties and incurred an additional cost of ₱22,049,936.

The building in Sta. Clara, Batangas was constructed in 2018 for the primary purpose of leasing out the property in the future.

The newly acquired and constructed investment properties are expected to generate revenue starting 2019.

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 25).

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 an office building for the Company’s use.

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 25). However, Management believes that their fair values approximate their carrying amounts as of December 31, 2018. 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 approximate their fair values as at December 31, 2018. Also, these properties are assessed as not impaired as at reporting date.

Operating expenses arising from these investment properties amounted to ₱90,900 and ₱38,700, in 2018 and 2017, respectively and are included in miscellaneous expenses under “Operating expenses” account (see Note 28). Rental income on certain investment properties amounted to ₱670,550 and ₱638,760 in 2018 and 2017, respectively and is included in rental income under the “Investment and other income (charges)” account (see Note 25).

The Company’s investment properties as at December 31, 2018 and 2017 are not held as collateral for its liabilities and are free from any encumbrances. The Company did not enter into any contractual commitment for the acquisition investment properties.

16. OTHER ASSETS

This account consists of:

	2018	2017
Deposit for acquisition of a subsidiary	₱43,000,000	₱-
Deposit on land	24,623,400	-
Claims fund	3,083,016	3,028,693
Deposit on rent, light and water	1,910,722	1,785,611
Salvage recoverable	1,345,661	1,745,661
Security fund	48,439	48,439
Others	45,061	14,383
	74,056,299	6,622,787
Allowance for ECLs-note 28	(127,181)	-
	₱73,929,118	₱6,622,787

Deposit for acquisition of a subsidiary in 2018 represents the amount deposited by the Company to a third party (investee company) for its planned acquisition of shares of stock. The investee company is processing the documents to finalize the Company’s investment.

Deposit for the acquisition of land pertains to the partial payment made for a property with a total price of ₱78.8 million. In accordance with the agreement between the seller and the Company, the physical possession of the property will be turned over once Deed of Absolute Sale has been executed or upon full payment.

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:

	2018	2017
Balance at beginning of year	₱1,745,661	₱1,961,139
Additions during the year	-	105,000
Disposal	-	(320,478)
Write-off	(400,000)	-
Balance at end of year	₱1,345,661	₱1,745,661

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

Claims fund represents Company’s cash held by third parties as 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.

17. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

	2018	2017
Accounts payable	₱30,873,175	₱8,580,903
Expanded withholding tax payable	27,435,048	21,869,715
Output tax payable	29,402,035	11,644,888
Income tax payable	10,379,205	4,137,818
Accrued expenses	15,319,626	418,410
SSS, Philhealth, HDMF and EC contributions payable	363,095	315,891
Other taxes payable	768,660	2,030,994
	₱114,540,844	₱48,998,619

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

Accrued expenses consist of accruals for utilities and professional fees which are payable in the subsequent year. In 2018, the accruals include liabilities for taxes of about ₱12 million as at December 31, 2018.

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

18. LOANS PAYABLE

This account consists of:

	2018	2017
Loans payable	₱9,015,919	₱5,830,073
Less: Current portion	3,646,545	2,139,253
Noncurrent portion	₱5,369,374	₱3,690,820

The Company executed car loan arrangements with a local bank for a total loan amount of ₱5,631,601 and ₱5,995,625, in 2018 and 2017, respectively, with terms ranging from thirty-six (36) to sixty (60) months and average monthly interest from 0.96% to 1.47%. Total loan payments amounted to ₱2,445,756 and ₱1,235,790, in 2018 and 2017, respectively.

The carrying value of vehicles held under chattel mortgage is ₱14,604,022 and ₱8,666,345 as at December 31, 2018 and 2017, respectively.

Interest expense on loans amounted to ₱868,168 and ₱508,256 in 2018 and 2017, respectively.

19. INSURANCE CONTRACT LIABILITIES

The Company obtained an actuarial valuation of the policy reserves from an independent actuary in 2018 and 2017, pursuant to CL No.2018-18 and consistent with the Revised Financial Reporting Framework issued by IC.

In 2017, the initial year of implementation of the Valuation Standards for Nonlife Insurance Policy Reserves, IC through its CL No. 2018-19, relaxed the valuation requirements in determining the Insurance Policy Reserve to consider setting up MfAD to zero, instead of the Company specific MfAD and setting up premium liabilities using UPR alone, instead of the higher of UPR and URR. In 2018, MfAD is allowed to be 50% of the computed Company-specific MfAD but starting 2019, it shall be set at 100%.

This account consists of:

	2018			2017		
	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	₱36,222,685	₱11,461,318	₱24,761,367	₱35,354,637	₱5,186,068	₱30,168,569
Provisions for IBNR losses	13,001,537	4,017,106	8,984,431	10,512,000	4,665,000	5,847,000
Provision for MfAD	167,317	11,530	155,787	-	-	-
Claims handling expense	58,257	-	58,257	126,000	-	126,000
Total claims and losses	49,449,796	15,489,954	33,959,842	45,992,637	9,851,068	36,141,569
Reserve for unearned premiums	210,801,975	14,271,314	196,530,661	180,072,631	11,599,697	168,472,934
Catastrophic loss reserve	307,221	-	307,221	185,202	-	185,202
Total insurance contract liabilities	₱260,558,992	₱29,761,268	₱230,797,724	₱226,250,470	₱21,450,765	₱204,799,705

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:

	2018			2017		
	Gross amount	Reinsurance	Net amount	Gross amount	Reinsurance	Net amount
At January 1	₱45,992,637	₱9,851,068	₱36,141,569	₱19,065,003	₱1,699,357	₱17,365,646
Increase in IBNR and MfAD – note 26	2,489,537	(647,894)	3,137,431	10,512,000	4,665,000	5,847,000
Claims during the year – note 26	71,838,906	8,460,633	63,378,273	86,719,414	4,725,402	81,994,012
Claims paid – note 26	(70,871,284)	(2,173,853)	(68,697,431)	(70,303,780)	(1,238,691)	(69,065,089)
At December 31	₱49,449,796	₱15,489,954	₱33,959,842	₱45,992,637	₱9,851,068	₱36,141,569

Movement in reserve for unearned premiums is as follows:

	2018			2017		
	Gross amount	Reinsurance	Net amount	Gross amount	Reinsurance	Net amount
At January 1	₱180,072,632	₱11,599,697	₱168,472,935	₱173,123,473	₱9,791,797	₱163,331,676
New policies during the year – note 24	675,715,761	29,588,751	646,127,010	509,244,031	23,259,574	485,984,457
Premiums earned during the year – note 24	(644,986,418)	(26,917,134)	(618,069,284)	(502,294,872)	(21,451,674)	(480,843,198)
At December 31	₱210,801,975	₱14,271,314	₱196,530,661	₱180,072,632	₱11,599,697	₱168,472,935

In performing the actuarial valuation, assumptions are intended to bring the estimated liabilities at a 75% confidence level of assurance or sufficiency, thus MfAD is applied. The purpose of the MfAD is to consider the variability of claims experience within a class of business, the diversification between classes of business and conservatism in the best estimate to allow inherent uncertainty of the best estimate of policy reserve.

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%. In 2018, MfAD used is 50% of the computed Company-specific MfAD ranging from 1% to 4%.

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

20. DUE TO REINSURERS

Due to reinsurers amounting to ₱29,203,934 and ₱27,741,492 as of December 31, 2018 and 2017, respectively, pertain to amount of insurance liability assumed by the Company from the reinsurers.

21. 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, 2018 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:

	2018	2017
Current service cost	₱1,636,375	₱1,589,035
Interest cost	757,876	509,649
	₱2,394,251	₱2,098,684

The retirement benefits cost is allocated as follows:

	2018	2017
Direct underwriting costs – note 27	₱1,675,976	₱1,469,079
Operating expenses – note 28	718,275	629,605
	₱2,394,251	₱2,098,684

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

	2018	2017
Balance at beginning of year	₱13,296,074	₱10,684,467
Interest cost	757,876	509,649
Current service cost	1,636,375	1,589,035
Remeasurement loss	2,025,261	512,923
Balance at end of year	₱17,715,586	₱13,296,074

Remeasurement loss, net of tax, amounted to ₱1,417,683 and ₱359,046 in 2018 and 2017, respectively.

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

	2018	2017
Discount rate	5.70%	4.77%
Salary increase rate	3%	3%

The discount rate as at December 31, 2018 and 2017 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, 2018 and 2017.

Risk Arising from the Retirement Plan

The defined benefit plan is unfunded by ₱17,715,586 and ₱13,296,074 as at December 31, 2018 and 2017, 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, 2018 and 2017 is as follows:

December 31, 2018

	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	₱10,381,363	₱3,344,148	₱7,349,458	₱11,101,588	₱10,306,019	₱178,244,075

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

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, 2018 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%	₱17,445,135	(₱270,452)
	-0.5%	18,050,844	335,257
Salary increase	+1%	18,549,530	833,943
	-1%	17,212,203	(503,384)

22. **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.

	2018	2017
Increase on gross liabilities	₱32,249,321	₱25,114,744
Increase on net liabilities	30,903,464	24,042,160
Decrease on income before income tax	(30,903,464)	(24,042,160)

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.

23. CAPITAL STOCK AND DEPOSIT FOR FUTURE STOCK SUBSCRIPTION

Details of this account are as follow:

Capital Stock

	Shares		Amount	
	2018	2017	2018	2017
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 and end of year	3,000,000	3,000,000	₱300,000,000	₱300,000,000

Deposit for future stock subscription

On June 7, 2017, the BOD approved the resolution to increase the Company's authorized capital share from ₱300,000,000 to ₱600,000,000. In 2018, the Company received ₱18,750,000 for the additional subscription of 187,500 shares at ₱100 par value. On January 12, 2018, the Company filed the required documents with the SEC. The application is still pending with the SEC as at December 31, 2018.

24. NET PREMIUM REVENUE

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

	2018	2017
<u>Gross premium earned – note 19</u>		
Insurance contract premium revenue		
Direct insurance	₱652,714,648	₱484,918,908
Assumed reinsurance	23,001,113	24,325,123
Total insurance contract premiums revenue	675,715,761	509,244,031
Gross change in unearned premium provision	(30,729,343)	(6,949,159)
	644,986,418	502,294,872
<u>Premiums ceded – note 19</u>		
Reinsurer's share of premium revenue		
Direct insurance	29,588,751	23,259,574
Reinsurers' share of gross change in unearned premium		
Provision	(2,671,617)	(1,807,900)
	26,917,134	21,451,674
Net premiums on insurance	₱618,069,284	₱480,843,198

25. INVESTMENT AND OTHER INCOME (CHARGES)

This account consists of:

	2018	2017
Interest income – notes 4, 7 and 9	₱7,378,052	₱5,429,893
Rental income – note 33	670,550	638,760
Share on notarial fees	517,590	326,720
Foreign exchange gain	429,800	2,632
Transaction cost for acquired financial assets at FVPL	(4,080,782)	-
Loss on sale of financial assets at FVPL – note 8	(231,778)	-
Dividend income on financial assets at FVPL – note 8	587,062	-
Increase (decrease) in catastrophe loss	(122,019)	182,186
Fair value loss in financial assets at FVPL – note 8	(781,156)	-
Fair value gain in investment properties – note 15	-	8,687,316
Loss on disposal of properties – notes 14 and 15	-	(114,989)
Other charges	(12,000,000)	-
Other income	572,583	391,476
	(₱7,060,098)	₱15,543,994

Other income consists mainly of gain on foreign exchange due to translation, provision for catastrophe loss and other incidental income. Other charges pertain to accrual for the Company's other taxes as at December 31, 2018.

26. NET INSURANCE BENEFITS AND CLAIMS

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

	2018	2017
Insurance contracts benefits and claims		
Direct insurance	₱71,244,822	₱89,073,987
Assumed reinsurance	1,856,455	7,763,053
Loss adjustment	1,227,166	394,374
Total insurance contract benefits and claims – note 19	74,328,443	97,231,414
Total reinsurers' share of insurance contract benefits and claims incurred – note 19	(7,812,739)	(9,390,402)
Net insurance benefits and claims	₱66,515,704	₱87,841,012

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

	2018	2017
Direct insurance	₱63,722,663	₱57,481,353
Assumed	5,921,455	12,428,053
Loss adjustment	1,227,166	394,374
Total insurance contract benefits and claims paid – note 19	₱70,871,284	₱70,303,780

Reinsurers' share of gross insurance contracts benefits and claims paid consist of direct insurance amounting to ₱2,173,853 and ₱1,238,691 in 2018 and 2017, respectively (see Note 19).

27. DIRECT UNDERWRITING COSTS

This account consists of:

	2018	2017
Commission – direct	₱169,973,124	₱118,414,570
Processing fees	95,522,695	94,980,160
Salaries, wages and allowances	12,723,704	10,465,459
Underwriting expenses	12,449,448	17,875,344
Transportation and travel	9,529,615	6,238,253
Employee benefits	7,326,009	7,855,394
Representation and entertainment	6,757,158	6,502,793
Stationeries and office supplies	5,850,650	4,699,303
Commission on reinsurance	5,677,588	10,400,401
Rent, light and water – note 33	5,583,167	5,172,585
Postage, freight and communications	3,869,839	3,350,185
Advertising and promotions	2,057,842	1,739,481
Training expenses	1,726,450	1,696,685
Retirement benefits cost – note 21	1,675,976	1,469,079
Dues and fees	1,258,217	1,016,277
Taxes and licenses	1,110,330	1,017,159
Depreciation and amortization – note 14	1,106,282	890,944
Meetings and conferences	892,834	939,138
<i>(forwarded)</i>		

	2018	2017
<i>(continued)</i>		
SSS, HDMF, PhilHealth and other contributions	752,089	592,502
Electronic data processing	427,774	367,478
Other underwriting expenses	845,027	652,477
	₱347,115,818	₱296,335,667

Other underwriting expenses consist of other benefits and other miscellaneous expenses.

28. OPERATING EXPENSES

This account consists of:

	2018	2017
Salaries and bonuses	₱23,629,737	₱19,377,243
Provision for ECL – notes 5, 6, 7 and 16	14,072,865	14,106,520
Professional fees	10,859,768	7,077,884
Transportation and travel	6,353,077	4,158,836
Representation and entertainment	4,821,592	4,335,128
Dues and fees	2,919,339	2,371,312
Rent, light and water – note 32	2,857,048	2,622,449
Depreciation and amortization – note 14	2,611,414	2,078,867
Printing and office supplies	2,507,421	2,013,987
Employee benefits	2,489,754	3,152,788
Communications	1,658,502	820,543
Advertising and promotion	1,371,895	1,159,654
SSS, HDMF, PhilHealth and other contributions	1,359,292	1,118,457
Management fees – note 32	1,200,000	1,200,000
Repairs and maintenance	1,149,225	1,075,329
Interest and bank charges	1,027,781	1,702,079
Per diem and board meetings	829,301	1,046,238
Retirement benefits cost – note 21	718,275	629,605
Training	671,397	659,822
Notarial fees and documentary stamps	548,661	748,491
Insurance	264,561	454,472
Electronic data processing expenses	183,332	157,491
Taxes and licenses	151,409	138,703
Books, subscriptions and periodicals	62,198	57,061
Miscellaneous	998,670	1,355,428
	₱85,316,514	₱73,618,387

29. 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:

	2018	2017
Income before income tax	₱120,473,879	₱45,581,701
Accounting income at 30%	36,142,164	13,674,510
Tax effect of:		
Interest income subjected to final tax	(2,213,415)	(1,647,976)
Dividend income	(176,119)	-
Adjustment on tax rate of investment property	-	7,087,337
Non-deductible interest expense	265,400	479,354
Other non-deductible expenses	73,500	1,969,231
Reported income tax expense	₱34,086,580	₱21,562,456

The Company's deferred tax assets consist of:

	2018	2017
Retirement benefits obligation	₱5,314,676	₱3,988,822
Provision on IBNR losses, claims handling fee and MfAD	2,763,001	1,791,900
Deferred reinsurance commissions	1,275,627	1,108,443
Provision for ECL	1,177,559	511,656
Provision for catastrophe loss	234,347	55,561
Unrealized foreign exchange loss	92,167	789
	₱10,857,377	₱7,457,171

The Company's deferred tax liabilities consist of:

	2018	2017
DAC	₱33,777,715	₱21,115,210
Revaluation increment on land	13,626,919	13,626,919
Unrealized foreign exchange gain	128,940	-
Deferred reinsurance premium	4,281,395	3,479,909
Excess of unearned premium per tax basis over books	13,698,622	3,791,097
	₱65,513,591	₱42,013,135

30. 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, 2018 and 2017 is determined by the Company:

	2018	2017
Net worth	₱1,041,074,389	₱621,908,528
RBC requirement	165,858,213	228,070,695
RBC ratio	628%	273%

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

As at December 31, 2018 and 2017, 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 ₱ 222,950,000 and ₱14,950,000 in 2018 and 2017, respectively, to meet the capital requirements of the IC.

The Company's net worth amounting to ₱1.095 billion and ₱768 million in 2018 and 2017, 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.

Under Sections 203 and 213 of the Amended Insurance Code and IC's CL 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 CL 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 CL 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 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 retroactively starting January 1, 2017. This supersedes CL No. 2016-67. The Company adopted the new valuation standard in determining the premium liability and reserve beginning on 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 they 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 financial assets at FVPL and FVOCI. 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 ₱1,097,953 and ₱334,165 in 2018 and 2017, respectively as a result of the change in the fair value of the Company's financial assets at FVPL and FVOCI.

Interest Rate Risk

As at December 31, 2018 and 2017, the Company is exposed to changes in market interest rates through its cash in banks, cash equivalents, debt instruments at amortized cost and other receivables (salary/mortgage/car loan), which are subject to variable interest rates (see Notes 4, 7 and 9). 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, 2018				
	Interest rate	Less than 1 year	More than 1 year	Total
Cash and cash equivalents	0.62% to 2.25%	₱268,039,141	₱-	₱268,039,141
Other receivables	10% to 12%	-	16,119,422	16,119,422
Debt instruments at amortized cost	2.13% to 10%	156,165,084	20,156,356	176,321,440
		₱424,204,225	₱36,275,778	₱460,480,003

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
Debt instruments at amortized cost	2.13% to 10%	203,618,398	11,898,207	215,516,605
		₱645,497,444	₱28,042,165	₱673,539,609

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.

December 31, 2018					
		Basis of ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash and cash equivalents*	(a)		P268,039,141	P-	P268,039,141
Insurance receivables (net)	(b)	Lifetime	125,703,623	2,367,097	123,336,526
Other receivables (net)**	(b)	ECL	59,768,464	631,392	59,137,072
Reinsurance assets (net)***	(b)		29,567,668	799,558	28,768,110
Debt instruments at amortized cost	(c)	12-month ECL	176,321,440	-	176,321,440
Other assets****	(c)	12-month ECL	5,087,238	127,181	4,960,057
			P664,487,574	P3,925,228	P660,562,346
December 31, 2017					
		Basis of ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash and cash equivalents*	(a)		P441,879,046	P-	P441,879,046
Insurance receivables (net)	(b)	Lifetime	166,131,423	1,705,522	164,425,901
Other receivables (net)**	(b)	ECL	57,837,547	-	57,837,547
Reinsurance assets (net)***	(b)		27,031,696	-	27,031,696
Debt instruments at amortized cost	(c)	12-month ECL	215,516,605	-	215,516,605
Other assets****	(c)	12-month ECL	4,877,126	-	4,877,126
			P913,273,443	P1,705,522	P911,567,921

*Excluding cash on hand amounting to P187,526 in 2018 and P187,992 in 2017.

**Excluding other nontrade receivables amounting to P1,831,916 in 2018 and P2,267,264 in 2017.

***Excluding deferred reinsurance premium amounting to P14,271,314 in 2018 and P11,599,697 in 2017

****Excluding salvage recoverable, deposits on land and deposit for acquisition of subsidiary amounting to P68,969,061 in 2018 and P1,745,661 in 2017.

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, 2018 and 2017, 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.

- (a) Cash and cash equivalents are assessed to have low credit risk at each reporting period. These are held by reputable banking institutions.
- (b) For insurance receivable, other receivables and reinsurance assets, the Company has applied the simplified approach to measure the loss allowance at lifetime ECLs. The Company determines the ECLs based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.
- (c) Debt instruments at amortized cost and other assets are assessed to have low credit risk as the counterparties to these investments have a minimum BBB-credit rating and have an internal rating of Performing. As such, the Company assumes that the credit risk on these financial assets has not increased significantly since initial recognition and recognizes 12-months ECL for these assets.

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	Allowance for ECL	Total
	High	Medium	Low			
December 31, 2018						
Loans and receivables						
Cash and cash equivalents	₱268,039,141	₱-	₱-	₱-	₱-	₱268,039,141
Insurance receivables:						
Due from ceding companies	590,601	-	-	18,603,943	492,168	19,686,712
Premium receivables	-	-	-	63,699,334	1,387,425	65,086,759
Due from agents	221,665	-	-	40,220,983	487,504	40,930,152
Other receivables	18,595,204	-	-	40,541,868	631,392	59,768,464
Reinsurance assets:						
Reinsurance recoverable on paid losses	-	-	-	13,642,304	435,410	14,077,714
Reinsurance recoverable on unpaid losses and IBNR	-	-	-	15,125,806	364,148	15,489,954
Debt instruments at amortized cost	176,321,440	-	-	-	-	176,321,440
Other assets	4,960,057	-	-	-	127,181	5,087,238
	₱468,728,108	₱-	₱-	₱191,834,238	₱3,925,228	₱664,487,574

December 31, 2017

	Neither past due nor impaired			Past due but not impaired	Allowance for ECL	Total
	High	Medium	Low			
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	39,007,392	-	-	18,830,155	-	57,837,547
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
Debt instruments at amortized cost	215,516,605	-	-	-	-	215,516,605
Other assets	4,877,126	-	-	-	-	4,877,126
	₱708,359,600	₱-	₱-	₱203,208,321	₱1,705,522	₱913,273,443

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.

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, 2018			
	Less than 1 year	1-5 years	Total
Insurance contract liabilities			
claims and losses*	₱49,449,796	₱-	₱49,449,796
Due to reinsurers	29,203,934	-	29,203,934
Loans payable	3,646,545	5,369,374	9,015,919
Accounts payable and accrued expenses**			
Accounts payable	42,873,175	-	42,873,175
Accrued expenses	3,319,626	-	3,319,626
	₱128,493,076	₱5,369,374	₱133,862,450

December 31, 2017			
	Less than 1 year	1-5 years	Total
Insurance contract liabilities			
claims and losses *	₱45,992,637	₱-	₱45,992,637
Due to reinsurers	27,741,492	-	27,741,492
Loans payable	2,139,253	3,690,820	5,830,073
Accounts payable and accrued expenses**			
Accounts payable	8,580,903	-	8,580,903
Accrued expenses	418,410	-	418,410
	₱84,872,695	₱3,690,820	₱88,563,515

*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, 2018	Gross claim liabilities	Reinsurers' share of claims liabilities	Net claim liabilities
Fire	₱4,456,539	₱2,047,932	₱2,408,607
Motor car	10,678,523	1,166,572	9,511,951
Marine	543,426	222,714	320,712
Bonds	13,237,200	4,501,594	8,735,606
Others	20,534,108	7,551,142	12,982,966
Total – note 19	₱49,449,796	₱15,489,954	₱33,959,842

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 19	₱45,992,637	₱9,851,068	₱36,141,569

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.

	2018			2017		
	Due within one year	Due beyond one year	Total	Due within one year	Due beyond one year	Total
Financial Assets						
At FVPL	₱7,671,200	₱-	₱7,671,200	₱-	₱-	₱-
At amortized cost						
Cash and cash equivalents*	268,039,141	-	268,039,141	441,879,046	-	₱441,879,046
Insurance receivables						
Due from ceding						
Companies	19,686,712	-	19,686,712	21,038,995	-	21,038,995
Premiums receivables	65,086,759	-	65,086,759	51,902,292	-	51,902,292
Due from agents	40,930,152	-	40,930,152	93,190,136	-	93,190,136
Other receivables**	23,715,862	35,421,210	59,137,072	3,729,724	54,107,823	57,837,547
Reinsurance assets						
Reinsurance recoverable on paid losses	14,077,714	-	14,077,714	14,752,195	-	14,752,195
Reinsurance recoverable on unpaid and IBNR losses	15,489,954	-	15,489,954	9,851,068	-	9,851,068
Premium reserve withheld by reinsurers	-	-	-	2,428,433	-	2,428,433
Other assets***	70,672,735	1,910,722	72,583,457	3,091,515	1,785,611	4,877,126
Debt instruments at amortized cost	156,165,084	20,156,356	176,321,440	203,618,398	11,898,207	215,516,605
Financial assets at FVOCI	-	3,308,332	3,308,332	-	3,341,646	3,341,646
	₱681,535,313	₱60,796,620	₱742,331,933	₱845,481,802	₱71,133,287	₱916,615,089

Financial Liabilities

Insurance contract liabilities						
claims and losses	₱49,449,796	₱-	₱49,449,796	₱45,992,637	₱-	₱45,992,637
Due to reinsurers	29,203,934	-	29,203,934	27,741,492	-	27,741,492
Loans payable	3,646,545	5,369,374	9,015,919	2,139,253	3,690,820	5,830,073
Accounts payable and accrued expenses						
Accounts payable	42,873,175	-	42,873,175	8,580,903	-	8,580,903
Accrued expenses	3,319,626	-	3,319,626	418,410	-	418,410
	₱128,493,076	₱5,369,374	₱133,862,450	₱84,872,695	₱3,690,820	₱88,563,515

*Excluding cash on hand amounting to ₱187,526 in 2018 and to ₱187,992 in 2017.

**Excluding other nontrade receivables amounting to ₱1,831,916 in 2018 and ₱2,267,264 in 2017.

***Excluding salvage recoverable amounting to ₱1,345,661 in 2018 and ₱1,745,661 in 2017.

31. FAIR VALUE INFORMATION

Financial asset measured at fair value

The fair value of financial assets at FVPL and FVOCI as at December 31 is determined as follows:

	2018	2017	Fair value hierarchy
Financial assets at FVPL	₱7,671,200	₱-	Level 1
Financial assets at FVOCI	3,308,332	3,341,646	Level 1
	₱10,979,532	₱3,341,646	

Fair value of financial assets at FVPL and FVOCI 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:

	2018		2017	
	Carrying values	Fair values	Carrying values	Fair values
FINANCIAL ASSETS				
Financial assets at amortized cost (net of current portion)				
Other receivables	₱50,632,222	₱50,632,222	₱16,143,958	₱16,143,958
Other assets	1,910,722	1,789,350	1,785,611	1,737,757
Debt instruments at amortized cost	176,321,440	170,947,202	215,516,605	218,294,707
	₱228,864,384	₱223,368,774	₱233,446,174	₱236,176,422

Other receivables (receivable from third party, salary, mortgage and car loan receivables)

The carrying amounts of these receivables and loans approximate their fair values as these are interest bearing with an annual rate ranging from 10% to 12%.

Deposit to service providers

Fair values are estimated using the discounted cash flow technique that makes use of risk-free interest rate of 6.78% and 2.68% in 2018 and 2017, respectively.

Debt instruments at amortized cost

Fair values are based on quoted rates ranging from 6.78% to 7.07% and 3.39% to 4.63% in 2018 and 2017, 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 latest valuation report obtained by the Company was as at December 31, 2017.

The fair value of the land properties, building and building improvement and condominium unit under investment properties amounting to ₱597,809,210 and ₱47,220,417 as at December 31, 2018 and 2017, 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 2018 and 2017.

32. 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
	2018	2017	2018	2017	
Individual Stockholder	₱4,320,000	₱54,749,807	₱5,220,000	₱38,764,307	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term and no impairment
Officers	820,843	1,544,508	820,843	1,544,508	Unsecured and unguaranteed, non-interest bearing, payable in cash, no fixed payment term and no impairment
	₱5,140,843	₱56,294,315	₱6,040,843	₱40,308,815	

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.

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
	2018	2017	2018	2017	
1) Salary loans to stockholders and officers	₱862,358	₱-	₱1,495,358	₱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	-	-	12,015,455	13,047,266	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
	2018	2017	2018	2017	
Toptraders Import and Export Corporation (TIEC) – Stockholder	₱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 per month 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 included as part of salaries and bonuses under operating expenses consists of the following:

	2018	2017
Retirement benefits	₱5,157,856	₱4,903,851
Bonus	3,125,356	2,867,255
Short-term benefits	2,053,797	1,780,275
Per diem	351,700	226,500
	₱10,688,709	₱9,777,881

33. LEASE COMMITMENTS

The following are the significant commitments involving the Company:

Company as lessee

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, 2018 and 2017, presented under direct underwriting cost and operating expenses, amounted to ₱6,815,296 and ₱6,375,342, respectively.

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

	2018	2017
Not later than one year	₱3,252,592	₱3,157,856
Later than one year and not later than five years	-	3,252,592
	₱3,252,592	₱6,410,448

Company as lessor

The Company entered into various short-term operating lease agreements for its investment properties. Rental income in 2018 and 2017 amounted to ₱670,550 and ₱638,760, respectively. No incidental cost has been incurred for the leased properties.

34. 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.

35. 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.

	Less than 12 months	Over 12 months	Total
December 31, 2018			
Assets			
Cash and cash equivalents	₱268,226,667	₱-	₱268,226,667
Insurance receivables (net)	123,336,526	-	123,336,526
Reinsurance assets (net)	43,039,424	-	43,039,424
Financial investment at FVPL	7,671,200	-	7,671,200
Other receivables	48,070,533	12,898,455	60,968,988
Deferred acquisition costs (net)	108,340,295	-	108,340,295
Prepayments	7,678,744	-	7,678,744
Debt instruments at amortized cost	156,165,084	20,156,356	176,321,440
Financial assets at FVOCI (net)	-	3,308,332	3,308,332
Assets held for sale	9,068,268	-	9,068,268
Property and equipment (net)	-	100,772,659	100,772,659
Investment properties	-	597,809,210	597,809,210
Deferred tax assets	-	10,857,377	10,857,377
Other assets	70,672,735	3,256,383	73,929,118
Total assets	₱842,269,476	₱749,058,772	₱1,591,328,248
Liabilities			
Accounts payable and accrued expenses	₱114,540,844	₱-	₱114,540,844
Insurance contract liabilities	49,449,796	211,109,196	260,558,992
Due to reinsurers	29,203,934	-	29,203,934
Loans payable	3,646,545	5,369,374	9,015,919
Retirement benefits obligation	-	17,715,586	17,715,586
Deferred tax liabilities	-	65,513,591	65,513,591
Total liabilities	₱196,841,119	₱299,707,747	₱496,548,866
December 31, 2017			
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
Debt instruments at amortized cost	203,618,398	11,898,207	215,516,605
Financial assets at FVOCI (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

December 31, 2018	Less than 12 months	Over 12 months	Total
Liabilities			
Accounts payable and accrued expenses	₱48,998,619	₱-	₱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	₱124,872,001	₱239,257,862	₱364,129,863

36. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATION (RR) 15-2010

On December 28, 2010 the Bureau of Internal Revenue (BIR) issued RR No.15-2010, which amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21- 2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

a. VAT sales during the year are as follow:

	2018
Output tax declared during the year	₱61,722,927
Output VAT tax base	514,357,729

b. Details of VAT input taxes during the year are as follow:

	2018
Balance at beginning of year	₱-
Add: Purchases	8,408,893
Less: Claim for tax credit/Adjustments	7,163,323
Balance at end of year	₱1,245,570

c. Documentary stamp tax paid amounted to ₱71,362,797 in 2018.

d. The schedule of taxes and licenses follows:

	2018
Local government clearance and registration	₱1,062,076
Real estate tax	186,250
Others	13,413
	₱1,261,739

e. The amount of withholding taxes follows:

Category	2018
Expanded withholding taxes	₱4,991,857
Tax on compensation and benefits	1,520,514
	<u>₱6,512,371</u>

f. The Company has no tax cases under preliminary investigation and/or prosecution in courts or bodies outside the BIR.

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