MAA General Assurance Philippines, Inc.
(A Subsidiary of MAA International Group Ltd)

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

Building a better working world

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
MAA General Assurance Philippines, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MAA General Assurance Philippines, Inc. (a subsidiary of MAA International Group Ltd) (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of MAA General Assurance Philippines, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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February 8, 2018

MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd)

STATEMENTS OF FINANCIAL POSITION

	December 31		January 1
	2017	2016 (As restated - Note 2)	2015 (As restated - Note 2)
ASSETS			
Cash and cash equivalents (Notes 4 and 24)	**₱301,129,957**	₱584,181,595	₱319,023,521
Short-term investments (Notes 5 and 24)	**55,381,058**	54,881,781	47,861,037
Insurance receivables (Notes 6 and 24)	**545,583,038**	458,493,259	398,057,165
Financial assets (Notes 7 and 24)			
Available-for-sale financial assets	**1,965,338,430**	1,260,020,568	939,969,108
Receivables	**32,988,761**	2,673,913	2,277,057
Accrued income (Notes 8 and 24)	**13,828,216**	8,854,071	6,894,394
Reinsurance assets (Notes 9, 14 and 24)	**430,123,391**	337,858,212	388,875,487
Deferred acquisition costs (Note 10)	**202,795,175**	164,455,269	140,081,015
Property and equipment (Note 11)	**18,784,399**	18,359,247	14,911,072
Software cost (Note 12)	**1,238,440**	848,676	8,114,286
Deferred tax assets (Note 23)	**8,204,956**	–	–
Other assets (Note 13)	**24,993,353**	25,329,631	23,455,725
	₱3,600,389,174	₱2,915,956,222	₱2,289,519,867
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 14 and 24)	**₱1,858,327,124**	₱1,509,700,535	₱1,263,946,910
Insurance payables (Notes 15 and 24)	**106,550,170**	20,898,223	56,067,048
Accounts payable and other liabilities (Notes 16 and 24)	**499,080,881**	426,180,875	328,976,577
Deferred reinsurance commissions (Note 10)	**8,631,438**	11,800,609	10,953,578
Retirement benefit liability (Note 22)	**6,874,846**	3,871,910	7,690,311
Income tax payable	**26,998,139**	2,071,653	–
Deferred tax liabilities (Note 23)	–	2,249,743	8,109,357
	2,506,462,598	1,976,773,548	1,675,743,781
Equity			
Capital stock (Note 17)	**682,123,000**	300,000,000	300,000,000
Deposit for future stock subscription (Note 17)	–	300,000,000	–
Contributed surplus	**643,832**	643,832	643,832
Contingency surplus (Note 17)	**738**	82,123,738	82,123,738
Revaluation reserve on available-for-sale financial assets (Note 7)	**(23,685,772)**	(34,730,445)	1,492,989
Retained earnings	**434,844,778**	291,145,549	229,515,527
	1,093,926,576	939,182,674	613,776,086
	₱3,600,389,174	₱2,915,956,222	₱2,289,519,867

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd)

STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
Gross earned premiums on insurance contracts (Notes 14 and 18)	**₱1,720,307,895**	₱1,421,891,713
Reinsurers' share of gross earned premiums on insurance contracts (Notes 14 and 18)	**(480,956,810)**	(368,270,080)
Net insurance earned premiums	**1,239,351,085**	1,053,621,633
Commission income (Note 10)	**33,117,453**	26,243,305
Investment and other income - net (Note 19)	**111,196,468**	68,214,545
Other income	**144,313,921**	94,457,850
Total income	**1,383,665,006**	1,148,079,483
Gross insurance contract benefits and claims paid (Notes 14 and 20)	**433,679,481**	466,860,349
Reinsurers' share of gross insurance contract benefits and claims paid (Notes 14 and 20)	**(36,581,085)**	(107,334,486)
Gross change in insurance contract liabilities (Note 20)	**272,796,353**	86,900,817
Reinsurers' share of gross change in insurance contract liabilities (Note 20)	**(102,092,906)**	59,339,575
Net insurance benefits and claims	**567,801,843**	505,766,255
Commission expense (Note 10)	**414,546,050**	356,926,555
Other underwriting expense (Note 21)	**19,856,447**	19,790,345
Operating expenses (Note 21)	**195,086,769**	181,043,418
Interest expense	**169,793**	218,500
Other expenses	**629,659,059**	557,978,818
Total Benefits, Claims and Other Expenses	**1,197,460,902**	1,063,745,073
Income before income tax	**186,204,104**	84,334,410
Current	**40,577,494**	32,627,353
Deferred	–	(10,730,720)
Provision for income tax (Note 23)	**40,577,494**	21,896,633
NET INCOME	**₱145,626,610**	₱62,437,777

See accompanying Notes to Financial Statements

MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
NET INCOME	**₱145,626,610**	₱62,437,777
OTHER COMPREHENSIVE INCOME		
Items that will be reclassified to profit or loss in subsequent periods:		
Change in revaluation reserve on available-for-sale financial assets (Note 7)	**11,044,673**	(36,223,434)
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement loss on retirement benefit liability, net of tax effect (Note 22)	**(1,927,381)**	(807,755)
	9,117,292	(37,031,189)
TOTAL COMPREHENSIVE INCOME	**₱154,743,902**	₱25,406,588

See accompanying Notes to Financial Statements

MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd)

STATEMENTS OF CHANGES IN EQUITY

	Capital stock (Note 17)	Deposit for future stock subscription (Note 17)	Contributed surplus	Contingency surplus (Notes 17 and 24)	Revaluation reserve on available-for-sale financial assets (Note 7)	Remeasurement loss on retirement benefit lability (Note 22)	Retained earnings	Total
As at January 1, 2017, as previously reported	**₱300,000,000**	**₱300,000,000**	**₱643,832**	**₱82,123,738**	**(₱34,730,445)**	**₱–**	**₱268,678,633**	**₱916,715,758**
Prior period adjustments (Note 2)	–	–	–	–	–	–	**22,466,916**	**22,466,916**
As at January 1, 2017, as restated	**300,000,000**	**300,000,000**	**643,832**	**82,123,738**	**(34,730,445)**	–	**291,145,549**	**939,182,674**
Issuance of common stock (Note 17)	**382,123,000**	**(300,000,000)**	–	**(82,123,000)**	–	–	–	–
Net income	–	–	–	–	–	–	**145,626,610**	**145,626,610**
Other comprehensive income	–	–	–	–	**11,044,673**	**(1,927,381)**	–	**9,117,292**
Total comprehensive income (loss)	–	–	–	–	**11,044,673**	**(1,927,381)**	**145,626,610**	**154,743,902**
Remeasurement loss on retirement benefit liability transferred to retained earnings	–	–	–	–	–	**1,927,381**	**(1,927,381)**	–
As at December 31, 2017	**₱682,123,000**	**₱–**	**₱643,832**	**₱738**	**(₱23,685,772)**	**₱–**	**₱434,844,778**	**₱1,093,926,576**
As at January 1, 2016, as previously reported	₱300,000,000	₱–	₱643,832	₱82,123,738	₱1,492,989	₱–	₱ 194,518,685	₱578,779,244
Prior period adjustments	–	–	–	–	–	–	34,996,842	34,996,842
As at January 1, 2016 as restated	300,000,000	–	643,832	82,123,738	1,492,989	–	229,515,527	613,776,086
Deposit for future stock subscription	–	300,000,000	–	–	–	–	–	300,000,000
Net income, as previously reported	–	–	–	–	–	–	74,967,703	74,967,703
Prior period adjustments	–	–	–	–	–	–	(12,529,926)	(12,529,926)
Net income, as restated	–	–	–	–	–	–	62,437,777	62,437,777
Other comprehensive loss	–	–	–	–	(36,223,434)	(807,755)	–	(37,031,189)
Total comprehensive income (loss), as restated	–	–	–	–	(36,223,434)	(807,755)	62,437,777	25,406,588
Remeasurement loss on retirement benefit liability transferred to retained earnings	–	–	–	–	–	807,755	(807,755)	–
As at December 31, 2016	₱300,000,000	₱300,000,000	₱643,832	₱82,123,738	(₱34,730,445)	₱–	₱291,145,549	₱939,182,674

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
(A Subsidiary of MAA International Group Ltd)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱186,204,104**	₱84,334,410
Adjustments for:		
Interest income (Note 19)	**(51,854,196)**	(31,283,144)
Gain on sale of:		
Available-for-sale financial assets (Note 19)	**(33,591,143)**	(13,354,874)
Property and equipment (Note 19)	**(961,359)**	(776,909)
Dividend income (Note 19)	**(22,976,080)**	(23,434,548)
Depreciation (Notes 11 and 21)	**3,561,269**	3,687,352
Impairment loss (Notes 7 and 19)	**1,938,026**	2,719,264
Net change in retirement benefit liability	**249,534**	244,950
Interest expense	**169,793**	218,500
Write-off of intangible asset (Note 12)	**–**	8,114,286
Net operating income before working capital changes	**82,739,948**	30,469,287
Decrease (increase) in:		
Short-term investments	**(499,277)**	(7,020,744)
Insurance receivables	**(87,089,779)**	(60,436,094)
Receivables	**(30,314,848)**	(396,856)
Reinsurance assets	**(92,265,179)**	51,017,275
Deferred acquisition costs	**(38,339,906)**	(24,374,254)
Other assets	**336,278**	(1,203,609)
Increase (decrease) in:		
Insurance contract liabilities	**348,626,589**	245,753,625
Insurance payables	**85,651,947**	(35,168,825)
Accounts payable and other liabilities	**72,900,006**	97,204,298
Deferred reinsurance commissions	**(3,169,171)**	847,031
Net cash generated from operations	**338,576,608**	296,691,134
Income tax paid	**(25,279,686)**	(31,225,997)
Net cash provided by operating activities	**313,296,922**	265,465,137
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Available-for-sale financial assets	**(2,048,181,503)**	(2,256,005,922)
Property and equipment (Note 11)	**(5,513,961)**	(7,213,401)
Intangible assets (Note 12)	**(389,764)**	(848,676)
Proceeds from sale/maturities of:		
Available-for-sale financial assets	**1,370,435,163**	1,911,214,500
Property and equipment (Note 11)	**2,488,899**	854,783
Interest received	**64,179,004**	28,475,605
Dividend received	**20,803,395**	23,434,548
Net cash used in investing activities	**(596,178,767)**	(300,088,563)

(Forward)

	Years Ended December 31	
	2017	2016 (As restated - Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposit for future stock subscription	**₱–**	₱300,000,000
Interest paid	**(169,793)**	(218,500)
Net cash provided by (used in) financing activities	**(169,793)**	299,781,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(283,051,638)**	265,158,074
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**584,181,595**	319,023,521
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱301,129,957**	₱584,181,595

See accompanying Notes to Financial Statements.

MAA GENERAL ASSURANCE PHILIPPINES, INC.
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

MAA General Assurance Philippines, Inc. (“the Company”), a corporation duly organized and existing under Philippine laws, is engaged in the business of nonlife insurance, indemnifying others against loss, damage or liability arising from unknown or contingent events. It includes lines such as fire and allied perils, motor vehicle, casualty, surety, marine cargo, marine hull, comprehensive liability insurance and allied risks, and/or such other insurance coverage allied with and incident to the aforementioned lines. The Company is a majority owned subsidiary of MAA International Group Ltd (the Parent Company), a company incorporated in Malaysia. The Company’s intermediate and ultimate parent company, which are both incorporated in Malaysia, is MAA Corporation Sdn Bhd and MAA Group Berhad, respectively.

The Company was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 1950. In a special Board of Directors’ (BOD) meeting held on August 8, 1999, it was approved that the Articles of Incorporation will be amended to extend the existence of the Company to another fifty years from its original expiry date. The Philippine SEC approved the Amended Articles of Incorporation in 2000.

The registered office address of the Company is 10th Floor, Pearl Bank Centre Building, 146 Valero Street, Salcedo Village, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD on February 8, 2018.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements have been prepared using the historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value. The financial statements are measured in Philippine Peso (₱), which is also the Company’s functional and presentation currency. All values are rounded off to the nearest peso values, unless otherwise indicated.

The financial statements of the Company provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement or reclassification of items in the financial statements. An additional statement of financial position of the Company as at January 1, 2016 is presented in these financial statements due to the retrospective application of the change in the valuation of the Company’s provision for unearned premiums (UPR), deferred acquisition costs (DAC), deferred reinsurance premiums (DRP) and deferred reinsurance commissions (DRC) (see Note 14).

The cumulative prior year impact of the changes arising from the adoption of the new valuation standard for nonlife insurance policy reserves is recognized in Retained Earnings.

The effects of the change in the valuation of non-life insurance policy reserves on the statements of financial position and statement of income accounts follow:

	December 31, 2016		
	As previously reported	Adjustment	As restated
Statement of financial position			
Assets			
Deferred reinsurance premiums	₱92,559,665	(₱10,390,762)	₱82,168,903
Deferred acquisition costs	174,893,820	(10,438,551)	164,455,269
Liabilities			
Provision for unearned premiums	726,204,407	(53,561,005)	672,643,402
Deferred reinsurance commissions	11,164,511	636,098	11,800,609
Deferred tax (assets) liabilities	(7,378,935)	9,628,678	2,249,743
Equity			
Retained earnings	268,678,633	22,466,916	291,145,549
Statement of income			
Gross earned premiums on insurance contracts	1,456,366,249	(34,474,536)	1,421,891,713
Reinsurers' share of gross earned premiums on insurance contracts	(381,685,477)	13,415,397	(368,270,080)
Commission income	29,315,439	(3,072,134)	26,243,305
Commission expense	363,157,934	(6,231,379)	356,926,555
Provision for income tax	27,266,601	(5,369,968)	21,896,633

	January 1, 2016		
	As previously reported	Adjustments	As restated
Statement of financial position			
Assets			
Deferred reinsurance premiums	₱97,652,762	(₱23,806,159)	₱73,846,603
Deferred acquisition costs	156,750,945	(16,669,930)	140,081,015
Liabilities			
Provision for unearned premiums	601,826,135	(88,035,541)	513,790,594
Deferred reinsurance commissions	13,389,614	(2,436,036)	10,953,578
Deferred tax (assets) liabilities	(6,889,289)	14,998,646	8,109,357
Equity			
Retained earnings	194,518,685	34,996,842	229,515,527

Statement of Compliance

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

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

- Insurance Commission (IC) Circular Letter (CL) No. 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves*

  IC CL No. 2016-67 sets out the valuation standards to all policies issued by non-life insurance companies and reinsurance companies. It is intended to cover both direct and assumed reinsurance business, whether treaty or facultative, of non-life insurance companies. The reserves for a non-life insurance company shall be composed of premium and claims liabilities both determined using best estimate assumptions, with an appropriate Margin for Adverse Deviation (MfAD) for expected future experience.

  Premium Liabilities for each class of business shall be determined as the higher of UPR and unexpired risk reserves (URR). UPR shall be calculated based on the 24th method for all classes of business, on a gross of reinsurance basis while URR shall be calculated as the best estimate of future claims, commission and expenses for all classes of business, with margin for adverse deviation.

  The Company applied the circular retrospectively.

Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2018

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

- PFRS 9, *Financial Instruments*

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

  The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

  The Company performed its initial impact assessment of all three phases of PFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Company when it adopts PFRS 9 in 2018.

  (a) Classification and measurement

  PFRS 9 requires that the Company classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVPL).

  As a result of the application of the classification and measurement requirements of PFRS 9, cash in bank, short-term investments and insurance receivables held to collect contractual cash flows are expected to be classified as at amortized cost measurement.

  The Company's government securities currently held as AFS under PAS 39 are expected to be classified as at fair value through other comprehensive income (FVOCI) as these are held both to collect contractual cash flows and to sell except for the government securities that are held for reserve requirements of the IC. The Company's government securities held for reserve requirements and internally managed private debt securities currently held as AFS under PAS 39 are expected to be classified as at amortized cost as management expects to hold on to these securities in order to collect contractual cash flows.

  Quoted equity shares currently held as AFS under PAS 39 are expected to be measured at fair value through profit or loss, except for preferred shares and internally managed common shares which are expected to be classified as at FVOCI.

  Investments in unquoted equity shares currently carried at cost under PAS 39 are intended to be held for the foreseeable future. As such, the Company intends to apply the option to present fair value changes for these investments in OCI. The Company is in the process of determining how to measure the fair value of these unquoted investments.

The estimated impact of the adoption of the standards for classification and measurement on the Company's equity as at January 1, 2018 is based on assessments undertaken to date and is summarized below.

- Increase in retained earnings of ₱18,021,795
- Increase in OCI of ₱22,960,920

(b) Impairment

PFRS 9 requires the Company to record expected credit losses on all of its debt financial assets. The Company plans to apply the simplified approach and to record lifetime expected losses on all trade receivables that do not contain significant financing component. For the Company's debt securities and other receivables that will be measured at amortized cost or at FVOCI, the general approach for measuring expected credit losses is required to be applied. Thus, credit losses for these financial assets will be measured either on 12-month or lifetime basis depending on the extent of the deterioration of their credit quality.

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of the PFRS 9 impairment model. The Company has estimated that application of PFRS 9's impairment requirements at January 1, 2018 results in a decrease in retained earnings of ₱7,464,541 and increase in OCI of ₱779,962.

(c) Hedge accounting

PFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in PAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.

The Company has assessed that the adoption of these amendments will not have any impact in the 2018 consolidated financial statements.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The Company expects to adopt PFRS 9 starting January 1, 2018; hence it does not expect to avail of the temporary exception or overlay approach.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

  The Company plans to adopt the new standard on the required effective date using the modified retrospective method.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot 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 relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

  The Company is currently assessing the potential effect of the amendments on its financial statements.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or FVOCI. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

  The Company is currently assessing the impact of adopting this interpretation.

Deferred effectivity

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

Product Classification

Insurance Contracts

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

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

Fair Value Measurement

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 (i.e., an exit price). 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.

If the asset or liability measured at fair value has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

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, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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 (see Note 24).

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and that are subject to an insignificant risk of changes in value.

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

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

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

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments designated as at FVPL, the initial measurement of financial assets includes transaction costs that are attributable to the acquisition of the financial asset.

Subsequent to initial recognition, the Company classifies its financial assets in the following categories: AFS financial assets and receivables.

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

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as designated at FVPL or receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. This category includes debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities is reported in the statements of income. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as 'Revaluation reserve on available-for-sale financial assets' in OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as realized gains or losses in the statements of income. Interest earned on holding AFS debt investments are recognized using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statements of income when the right to receive the payment has been established. The losses arising from impairment of such investments are recognized as 'Impairment loss' under Investments and other income (expense) – net in the statements of income.

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

Receivables
Receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading or designated as AFS or at FVPL. This accounting policy relates to the statement of financial position captions: 'Cash and cash equivalents', 'Short-term investments', 'Insurance receivables', 'Receivables' and 'Accrued income'.

After initial measurement, the receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment losses. Any losses arising from impairment of such receivables or reversals of impairment are recognized as 'Provision for (reversal of) credit losses' under Operating expense in the statements of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

This accounting policy applies primarily to the Company's insurance payables and accounts payable and other liabilities that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement benefit liability).

Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

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

Receivables

For receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. If, in a subsequent period, the amount of estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

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

AFS Financial Assets Carried at Fair Value

In case of equity instruments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is significant and prolonged is subject to judgment. When there is evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in equity, is removed from equity and recognized in the statements of income. Impairment losses on equity investments are not reversed through the statements of income. Increase in fair value after impairment is recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of other income in profit or loss. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statements of income, the impairment loss is reversed through the statements of income.

AFS Financial Assets Carried at Cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

- the 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 a 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 the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right to receive cash flows from an asset and has either 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 guarantee over the transferred assets is measured at the lower of the original carrying amount of the assets and the maximum amount of consideration that the Company could be required to pay.

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

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

<u>Reinsurance Assets</u>
The Company cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract.

An impairment review is performed at each reporting period or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is charged in the statements of income.

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

The Company also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized in the statements of income as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Deferred Acquisition Costs

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract. For policies with policy duration less than one year or more than one year, the DAC considers the actual DAC from the date of valuation to the date of termination of policies. Amortization is recognized as 'Commission expense' in the statements of income. The unamortized acquisition costs are shown as 'Deferred acquisition costs' in the assets section of the statement of financial position.

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

DAC is derecognized when the related contracts are settled or disposed.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged against profit or loss during the financial period in which they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the properties, or the term of the lease, whichever is shorter, for leasehold improvements, as follows:

	Years
Transportation equipment	5-10
Leasehold improvements	5
Computer equipment	5
Office furniture, fixtures and equipment	5
Building	20

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

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against profit or loss.

Software Cost

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

Computer software is carried at cost less accumulated amortization. Computer software cost is amortized over the expected useful life of the asset, but not to exceed five (5) years. All computer software components are amortized over five (5) years. Amortization commences when the asset is available for use or when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Company.

Creditable Withholding Taxes (CWTs)

Creditable withholding pertains to the indirect tax paid by the Company that is withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under ‘Other assets’ account.

At each tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company.

At each end of the reporting period, an assessment for impairment is performed as to the recoverability of these CWTs.

Impairment of Nonfinancial Assets

The Company assesses at each end of the reporting period whether there is an indication that property and equipment and its intangible assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each end of the reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Provision for Unearned Premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as 'Provision for unearned premiums' in the liability section of the statements of financial position. UPR is calculated based on the 24th method for all classes of business, on a gross of reinsurance basis. For policies with policy duration less than one year or more than one year, the UPR considers the actual unearned premiums from the date of valuation to the date of termination of policies. 'Gross change in provision for unearned premiums' account is taken to profit or loss in order that revenue is recognized over the period of risk.

Claims Provision and Incurred But Not Reported (IBNR) Losses
Outstanding claims provision is 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 a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money and includes provision for claims reported and claims IBNR. The provision for claims liability is based on the adjusters' report on the individual claims and the provision for claims IBNR is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. No provision for equalization or catastrophic reserves is recognized. The liabilities are derecognized when the contract is discharged, cancelled, or has expired.

Liability Adequacy Test
At each reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of related DAC. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests.

Retirement Liability
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements are closed to Retained earnings at the end of every reporting date.

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

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

Equity
Capital stock represents the value of shares that have been issued at par.

Deposit for future stock subscription (DFS) 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 capital stock.

Contributed surplus includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Contingency surplus pertains to capital infusions of shareholders in order to comply with Margin of Solvency (MOS) deficiency as a result of the examination made by the IC.

Retained earnings include all the accumulated earnings of the Company.

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

Gross premiums
Gross premiums on insurance contracts comprise the total premiums for the whole period of cover provided by insurance contracts entered into during the accounting period and are recognized on the date on which the policies incept. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from on past experience and are included in premiums written.

Premiums from insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Provision for unearned premiums' and presented as part of insurance contract liabilities in the liabilities section of the statements of financial position.

Reinsurance Premiums
Gross reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognized on the date which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

The related reinsurance premiums ceded that pertain to the unexpired periods at reporting date are accounted for as 'Deferred reinsurance premiums' shown as part of reinsurance assets presented in the assets section of the statement of financial position.

Reinsurance premiums and claims on the face of the statement of profit or loss have been presented as negative items within premiums and net benefits and claims, respectively, because this is consistent with how the business is managed.

Commission income
Commissions earned from insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as ‘Deferred reinsurance commissions’ and presented in the liabilities section of the statements of financial position.

Investment income

- Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest method.
- Dividend income is recognized when the shareholders’ right to receive the payment is established.

Other income
All other income items are recognized in the statement of income when earned.

Expense Recognition
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

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

Commission expense
Commissions incurred from insurance contracts are recognized as expense over the period of the contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at reporting date is accounted for as ‘Deferred acquisition costs’ and presented in the asset section of the statement of financial position.

Other Expenses
Other underwriting expense, operating expenses and interest expense, except for lease agreements, are recognized as expense as they are incurred.

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

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

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

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

Foreign Exchange Transactions

The functional and presentation currency of the Company is the Philippine Peso (₱). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. Differences arising from translation of monetary assets are taken to profit or loss.

Income Tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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

Current tax and deferred tax relating to items recognized as OCI is also recognized in the statement of OCI.

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

Value-added Tax (VAT)
The input VAT tax pertains to the 12% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due on the sale of insurance policies and other goods or services by the Company.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under 'Accounts payable and other liabilities' account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under 'Other assets' account.

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

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

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

3. **Significant Accounting Judgments and Estimates**

The preparation of the financial statements in accordance with PFRSs requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

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

Judgments

Impairment of AFS investment

The Company determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. This determination of what is significant or prolonged requires judgement. The Company treats 'significant' generally as a decrease by more than 20.0% of the original cost of the investment and 'prolonged' as a continuous decline in value for more than 12 months. In making this judgement, the Company considers, among other factors, the normal volatility in share price.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As at December 31, 2017 and 2016, the carrying values of AFS investments and related allowance for impairment are disclosed in Note 7.

Estimates

Valuation of insurance contract liabilities

Estimates have to be made at the reporting date for both the expected ultimate cost of both claims reported and claims IBNR. It can take a significant period of time before the ultimate claim cost can be established with certainty and for some types of policies, IBNR claims form the majority of the claims provision. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Paid Chain Ladder method with and without Bornhuetter-Ferguson (BF) adjustments, Reported Chain Ladder method with and without BF adjustments and Expected Loss Ratio methods.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

As at December 31, 2017 and 2016, the carrying values of provision for IBNR are disclosed in Note 14.

Impairment of insurance receivables
The Company reviews its insurance receivables at each end of the reporting period to assess the reasonableness of provision for impairment losses recognized in the statement of comprehensive income. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

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

As at December 31, 2017 and 2016, the carrying values of insurance receivables and related allowance for credit losses are disclosed in Note 6.

Estimation of retirement benefit liability
The cost of defined benefit obligation and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates and future salary increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The discount rates used were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payout as at statement of financial position date. Future salary increases are based on historical annual merit, market and promotional increase and expected future inflation rates.

As at December 31, 2017 and 2016, the retirement benefit liability and the key assumptions in determining the present value of the defined benefit obligation of the Company are disclosed in Note 22.

Recognition of deferred tax assets
Deferred tax assets are recognized in respect of the temporary differences to the extent that there are sufficient taxable temporary differences relating to the same taxation authority which are expected to reverse in the same period as the expected reversal of the deductible temporary differences or to the extent that it is probable that future taxable profit will be available against which these can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

As at December 31, 2017 and 2016, the Company's recognized and unrecognized deferred tax assets are disclosed in Note 23.

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand and in banks	**₱204,099,674**	₱169,303,733
Short-term deposits	**97,030,283**	414,877,862
	₱301,129,957	₱584,181,595

Cash in banks earns interest at the respective bank deposit rates. Short-term deposits are money market placements maturing three months or less from the date of acquisition, but with varying periods depending on the immediate cash requirements of the Company and earn interest at the rates ranging from 1.25% to 3.50% in 2017 and 0.75% to 2.5% in 2016.

5. Short-term Investments

Short-term investments amounted to ₱55,381,058 and ₱54,881,781 as of December 31, 2017 and 2016, respectively.

Short-term investments represent time deposits with maturities of more than three months but not more than one year from dates of placement and earned interest at annual rates ranging from 0.75% to 1.75% in 2017 and 0.75% to 1.38% in 2016.

Interest income from short-term investments amounted to ₱627,122 and ₱ 480,880 in 2017 and 2016, respectively (see Note 19).

6. Insurance Receivables

This account consists of:

	2017	2016
Due from brokers and agents	**₱531,285,607**	₱452,645,724
Due from ceding companies	**7,415,433**	3,998,422
Funds held by ceding companies	**5,492,472**	5,281,913
Reinsurance recoverable on paid losses	**23,175,023**	19,120,923
	567,368,535	481,046,982
Less allowance for credit losses	**21,785,497**	22,553,723
	₱545,583,038	₱458,493,259

The following table shows aging information of insurance receivables:

	2017					
	1 to 30 days	**31 to 90 days**	**91to 180 days**	**181to 240 days**	**241 days above**	**Total**
Due from brokers and agents	**₱193,111,155**	**₱187,583,830**	**₱113,182,487**	**₱24,831,328**	**₱12,576,807**	**₱531,285,607**
Due from ceding companies	**138,880**	**245,855**	**5,325,859**	**525,251**	**1,179,588**	**7,415,433**
Funds held by ceding companies	**–**	**–**	**5,492,472**	**–**	**–**	**5,492,472**
Reinsurance recoverable on paid losses	**533,010**	**1,938,696**	**3,051,176**	**608,075**	**17,044,066**	**23,175,023**
	₱193,783,045	**₱189,768,381**	**₱127,051,994**	**₱25,964,654**	**₱30,800,461**	**₱567,368,535**

	2016					
	1 to 30 days	31 to 90 days	91to 180 days	181to 240 days	241 days above	Total
Due from brokers and agents	₱72,811,732	₱183,421,765	₱142,732,449	₱25,376,473	₱28,303,305	₱452,645,724
Due from ceding companies	−	1,561,267	2,412,600	24,555	−	3,998,422
Funds held by ceding companies	−	−	5,281,913	−	−	5,281,913
Reinsurance recoverable on paid losses	914,764	1,145,019	538,652	2,986,549	13,535,939	19,120,923
	₱73,726,496	₱186,128,051	₱150,965,614	₱28,387,577	₱41,839,244	₱481,046,982

The following is a reconciliation of the changes in allowance for credit losses for insurance receivables:

	2017			
	Due from brokers and agents	**Due from ceding companies**	**Reinsurance recoverable on paid losses**	**Total**
Balances at beginning of year	**₱8,872,054**	**₱30,917**	**₱13,650,752**	**₱22,553,723**
Provision for (Reversal of) credit losses (Note 21)	**(5,510,889)**	**110,284**	**4,632,379**	**(768,226)**
Balance at end of year	**₱3,361,165**	**₱141,201**	**₱18,283,131**	**₱21,785,497**
Individually impaired	**₱610,280**	**₱–**	**₱18,102,757**	**₱18,713,037**
Collectively impaired	**2,750,885**	**141,201**	**180,374**	**3,072,460**
	₱3,361,165	**₱141,201**	**₱18,283,131**	**₱21,785,497**

	2016			
	Due from brokers and agents	Due from ceding companies	Reinsurance recoverable on paid losses	Total
Balances at beginning of year	₱9,995,920	₱1,470,292	₱14,605,782	₱26,071,994
Reversal of credit losses (Note 21)	(1,123,866)	(1,439,375)	(955,030)	(3,518,271)
Balance at end of year	₱8,872,054	₱30,917	₱13,650,752	₱22,553,723
Individually impaired	₱349,742	₱–	₱13,650,752	14,000,494
Collectively impaired	8,522,312	30,917	−	8,553,229
	₱8,872,054	₱30,917	₱13,650,752	₱22,553,723

7. **Financial Assets**

The Company’s financial assets are summarized as follows:

	2017	2016
AFS financial assets	**₱1,965,338,430**	₱1,260,020,568
Receivables	**32,988,761**	2,673,913
	₱1,998,327,191	₱1,262,694,481

The details of the assets included in each of the categories above are as follows:

a) AFS financial assets

	2017	2016
Quoted securities - at fair value		
Listed equity securities:		
Common shares	**₱463,491,860**	₱214,771,749
Preferred shares	**291,213,250**	276,095,880
Club shares	**3,300,000**	3,500,000
Government debt securities	**603,958,546**	301,503,381
Private debt securities	**603,354,774**	464,129,558
Non-quoted securities - at cost		
Unlisted equity securities:		
Common shares	**20,000**	20,000
Total AFS financial assets recognized in the statements of financial position	**₱1,965,338,430**	₱1,260,020,568
Quoted securities - at cost or amortized cost		
Listed equity securities		
Common shares - net of allowance for impairment loss of ₱1,938,026 in 2017 and ₱2,719,264 in 2016	**₱440,457,874**	₱223,774,603
Preferred shares	**279,017,386**	261,887,500
Club shares	**1,600,000**	1,600,000
Government debt securities	**638,948,225**	327,828,910
Private debt securities	**628,980,717**	479,640,000
Non-quoted securities - at cost		
Unlisted equity securities:		
Common shares	**20,000**	20,000
Total AFS financial assets at cost or amortized cost	**₱1,989,024,202**	₱1,294,751,013

Government securities include fixed rate treasury notes and retail treasury bonds that bear interest rates per annum ranging from 2.13% to 8.00% in 2017 and from 3.25% to 8.00% in 2016, and have maturities ranging from 2018 to 2040.

Private debt securities consist of fixed term debt instruments with annual interest rates ranging from 3.92% to 6.72% and from 3.92% to 6.73% in 2017 and 2016, respectively, and have maturities ranging from 2020 to 2027.

As of December 31, 2017 and 2016, the unrealized losses on AFS financial assets recognized in 'Revaluation reserve on available-for-sale financial assets' under equity amounted to ₱23,685,772 and ₱34,730,445, respectively.

The rollforward of revaluation reserve on AFS financial assets follows:

	2017	2016
Balances at beginning of year	**(₱34,730,445)**	₱1,492,989
Changes in fair value during the year	**42,697,790**	(25,587,824)
Impairment loss transferred in profit or loss (Note 19)	**1,938,026**	2,719,264
Gain realized in profit or loss (Note 19)	**(33,591,143)**	(13,354,874)
	11,044,673	(36,223,434)
Balances at end of year	**(₱23,685,772)**	(₱34,730,445)

b) *Receivables*

This account consists of the following:

	2017	2016
Due from securities broker (Note 24)	**₱30,097,750**	₱–
Miscellaneous receivables (Note 24)	**2,891,011**	2,673,913
	₱32,988,761	₱2,673,913

Due from securities broker pertains to receivable arising from unsettled trade for the sale of equity securities.

Miscellaneous receivables pertains to salary loans granted to employees which are non-interest bearing and payable to the Company within one year through payroll deduction.

As of December 31, 2017 and 2016, the Company's outstanding receivables are all due within one year.

8. **Accrued Income**

This account consists of:

	2017	2016
Accrued interest receivable	**₱10,314,314**	₱7,512,854
Dividend receivable	**3,513,902**	1,341,217
	₱13,828,216	₱8,854,071

Dividend receivable arises from the Company's investment in preferred shares. Interest receivable arises from the Company's short-term deposits and government and private debt securities.

9. Reinsurance Assets

This account consists of the following:

	December 31, 2017	December 31, 2016 (As restated - Note 2)	January 1, 2016 (As restated - Note 2)
Reinsurance recoverable on unpaid losses (Note 14)	**₱357,782,215**	₱255,689,309	₱315,028,884
Deferred reinsurance premiums (Note 14)	**72,341,176**	82,168,903	73,846,603
	₱430,123,391	₱337,858,212	₱388,875,487

10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs
The movements in this account follows:

	December 31, 2017	December 31, 2016 (As restated - Note 2)	January 1, 2016 (As restated - Note 2)
Balance at beginning of year	**₱164,455,269**	₱140,081,015	₱119,468,641
Costs deferred during the year	**452,885,956**	381,300,809	345,489,712
Amortization during the year	**(414,546,050)**	(356,926,555)	(324,877,338)
Balance at end of year	**₱202,795,175**	₱164,455,269	₱140,081,015

Deferred Reinsurance Commissions
The movement in this account follows:

	December 31, 2017	December 31, 2016 (As restated - Note 2)	January 1, 2016 (As restated - Note 2)
Balance at beginning of year	**₱11,800,609**	₱10,953,578	₱12,400,335
Income deferred during the year	**29,948,282**	27,090,336	26,711,793
Amortization during the year	**(33,117,453)**	(26,243,305)	(28,158,550)
Balance at end of year	**₱8,631,438**	₱11,800,609	₱10,953,578

11. Property and Equipment

The composition of and movement in the Company's property and equipment follow:

	2017					
	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2017	**₱15,661,484**	**₱7,866,091**	**₱15,842,691**	**₱7,855,085**	**₱9,750,000**	**₱56,975,351**
Additions	**2,877,678**	**113,922**	**1,539,200**	**983,161**	**–**	**5,513,961**
Disposals	**(5,849,698)**	**(36,272)**	**(10,912,527)**	**(506,590)**	**–**	**(17,305,087)**
At December 31, 2017	**12,689,464**	**7,943,741**	**6,469,364**	**8,331,656**	**9,750,000**	**45,184,225**
Accumulated depreciation and amortization						
At January 1,2017	**10,024,296**	**7,545,445**	**12,190,039**	**6,161,532**	**2,694,792**	**38,616,104**
Depreciation (Note 21)	**744,633**	**200,788**	**1,372,834**	**755,514**	**487,500**	**3,561,269**
Disposals (Note 21)	**(4,662,233)**	**–**	**(10,691,892)**	**(423,422)**	**–**	**(15,777,547)**
At December 31, 2017	**6,106,696**	**7,746,233**	**2,870,981**	**6,493,624**	**3,182,292**	**26,399,826**
Net book value as of December 31, 2017	**₱6,582,768**	**₱197,508**	**₱3,598,383**	**₱1,838,032**	**₱6,567,708**	**₱18,784,399**

	2016					
	Transportation Equipment	Leasehold Improvements	Computer Equipment	Office Furniture, Fixtures and Equipment	Building	Total
Cost						
At January 1, 2016	₱13,448,524	₱7,866,091	₱52,922,877	₱7,051,284	₱9,750,000	₱91,038,776
Additions	4,237,518	–	2,143,563	832,320	–	7,213,401
Disposals	(2,024,558)	–	(39,223,749)	(28,519)	–	(41,276,826)
At December 31, 2016	15,661,484	7,866,091	15,842,691	7,855,085	9,750,000	56,975,351
Accumulated depreciation and amortization						
At January 1, 2016	11,056,118	7,289,332	49,962,008	5,612,954	2,207,292	76,127,704
Depreciation (Note 21)	926,067	256,113	1,446,377	571,295	487,500	3,687,352
Disposals (Note 21)	(1,957,889)	–	(39,218,346)	(22,717)	–	(41,198,952)
At December 31, 2016	10,024,296	7,545,445	12,190,039	6,161,532	2,694,792	38,616,104
Net book value as of December 31, 2016	₱5,637,188	₱320,646	₱3,652,652	₱1,693,553	₱7,055,208	₱18,359,247

As of December 31, 2017 and 2016, the gain on sale of property and equipment recognized in 'Investment and other income - net' in the statement of income amounted to ₱961,359 and ₱776,909, respectively.

As of December 31, 2017 and 2016, the costs of fully depreciated property and equipment still in use amounted to ₱ 16,537,566 and ₱28,785,040, respectively.

12. Software Cost

The movements in this account follow:

	2017	2016
Balance at beginning of year	**₱848,676**	₱8,114,286
Additions	**389,764**	848,676
Write-off	**–**	(8,114,286)
Balance at end of year	**₱1,238,440**	₱848,676

In 2016, the Company wrote off the software purchased back in 2012 as management determined that it can no longer support the operations and requirements of the Company.

As of December 31, 2017 and 2016, the Company's new system is not yet implemented.

13. Other Assets

This account consists of:

	2017	2016
Deposits	**₱11,380,542**	₱9,966,734
Creditable withholding tax	**11,347,181**	13,085,228
Claims fund	**2,137,162**	2,137,162
Prepaid expenses	**57,753**	69,792
Security fund	**70,715**	70,715
	₱24,993,353	₱25,329,631

14. Insurance Contract Liabilities

Changes in valuation methodology

Pursuant to Section 219 and 220 of the Amended Insurance Code (Republic Act No. 10607) which require every insurance company other than life to maintain (a) a reserve for unearned premiums on its policies in force, and (b) the estimated amount of all its other liabilities, including taxes, expenses and other obligations due or accrued including any special reserves required by the Commissioner, in addition to its liabilities and reserves on contracts of insurance issued by it, IC issued CL No. 2016-67, effective January 1, 2017, which provides the new set of valuation standards for non-life insurance policy reserves, which is the aggregate of premium and claim liabilities.

Premium liabilities for each class of business shall be determined as the higher of UPR and URR. UPR shall be calculated based on the 24th method for all classes of business, on a gross of reinsurance basis. This means that for policies with policy duration less than one year or more than one year, the UPR shall consider the actual unearned premium from the date of valuation to the date of termination of the policy. URR shall be calculated as the best estimate of future claims, commission and expenses for all classes of business, with MfAD. This best estimate relates to expected future claim payments and related expenses to be incurred after the valuation date, arising from future events.

Claim liabilities, on the other hand, refers to claims incurred but not yet paid as of the end of the accounting period, for both the Company's direct and assumed reinsurance business, whether treaty or facultative. It includes claims due and unpaid, claims in the course of settlement, resisted claims and those which are incurred but not reported at a designated level of confidence, as well as direct and indirect expenses related to settling all outstanding claims, whether reported an unreported, as of valuation date.

On the initial year of effectivity of the new valuation standard, the implementation requirements will be relaxed on premium liabilities allowing insurance companies to set up UPR instead of the higher of the UPR and URR and on claim liabilities allowing insurance companies to set the MfAD to zero (see Note 24).

With respect to transition accounting, IC CL No. 2017 -15, *Regulatory Requirements and Actions for the New Regulatory Framework*, provides that the cumulative prior year impact of the changes arising from the adoption of the New Financial Reporting Framework, including the revaluation of the reserves for Claims and Premiums Liabilities computed based on the new valuation standards for non-life insurance policy reserves as provided under CL No. 2016 - 67, shall be recognized in Retained Earnings.

In 2017, the Company has restated the comparative statements of financial position as of January 1, 2016 and December 31, 2016 in line with the changes in the Company's accounting policy brought about by the new valuation standard on non-life insurance premiums liabilities. No restatement was made with respect to the Company's claim liabilities as the provision for IBNR as of December 31, 2016 and January 1, 2016 complies already with the requirements of IC CL No. 2016-67.

Insurance contract liabilities are analyzed as follows:

	December 31, 2017			December 31, 2016 (As restated - Note 2)			January 1, 2016 (As restated - Note 2)		
	Insurance contract liabilities	**Reinsurers' share of liabilities (Note 9)**	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net
Provision for claims reported and loss adjustment expenses	**₱984,496,450**	**₱288,742,482**	**₱695,753,968**	₱678,088,153	₱191,952,326	₱486,135,827	₱623,452,556	₱253,122,506	₱370,330,050
Provision for IBNR losses	**125,357,036**	**69,039,733**	**56,317,303**	158,968,980	63,736,983	95,231,997	126,703,760	61,906,378	64,797,382
Total claims reported and IBNR	**1,109,853,486**	**357,782,215**	**752,071,271**	837,057,133	255,689,309	581,367,824	750,156,316	315,028,884	435,127,432
Provision for unearned premiums	**748,473,638**	**72,341,176**	**676,132,462**	672,643,402	82,168,903	590,474,499	513,790,594	73,846,603	439,943,991
Total insurance contract liabilities	**₱1,858,327,124**	**₱430,123,391**	**₱1,428,203,733**	₱1,509,700,535	₱337,858,212	₱1,171,842,323	₱1,263,946,910	₱388,875,487	₱875,071,423

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

	2017			2016		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 9)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net
Balance at beginning of year	**₱837,057,133**	**₱255,689,309**	**₱581,367,824**	₱750,156,316	₱315,028,884	₱435,127,432
Claims incurred during the year	**740,087,778**	**133,371,241**	**606,716,537**	521,495,946	46,164,306	475,331,640
Claims paid during the year – net of salvage and subrogation (Note 20)	**(433,679,481)**	**(36,581,085)**	**(397,098,396)**	(466,860,349)	(107,334,486)	(359,525,863)
Increase (Decrease) in IBNR (Note 20)	**(33,611,944)**	**5,302,750**	**(38,914,694)**	32,265,220	1,830,605	30,434,615
Balance at end of year	**₱1,109,853,486**	**₱357,782,215**	**₱752,071,271**	₱837,057,133	₱255,689,309	₱581,367,824

Provision for unearned premiums may be analyzed as follows:

	December 31, 2017			December 31, 2016 (As restated - Note 2)			January 1, 2016 (As restated - Note 2)		
	Insurance contract liabilities	**Reinsurers' share of liabilities** (Note 9)	**Net**	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net	Insurance contract liabilities	Reinsurers' share of liabilities (Note 9)	Net
Balance at beginning of year	**₱672,643,402**	**₱82,168,903**	**₱590,474,499**	₱513,790,594	₱73,846,603	₱439,943,991	₱516,787,852	₱98,090,749	₱418,697,103
New policies written during the year (Note 18)	**1,796,138,131**	**471,129,083**	**1,325,009,048**	1,580,744,521	376,592,380	1,204,152,141	1,340,847,863	368,121,456	972,726,407
Premiums earned during the year (Note 18)	**(1,720,307,895)**	**(480,956,810)**	**(1,239,351,085)**	(1,421,891,713)	(368,270,080)	(1,053,621,633)	(1,343,845,121)	(392,365,602)	(951,479,519)
Balance at end of year	**₱748,473,638**	**₱72,341,176**	**₱676,132,462**	₱672,643,402	₱82,168,903	₱590,474,499	₱513,790,594	₱73,846,603	₱439,943,991

15. **Insurance Payables**

This account consists of:

	2017	2016
Due to reinsurers and ceding companies (Note 24)	**₱106,550,170**	₱20,898,223

The rollforward analysis of insurance payables follows:

	Due to reinsurers and ceding companies	**Funds held for reinsurers**	**Total**
At January 1, 2016	₱55,867,244	₱199,804	₱56,067,048
Arising during the year	52,222,889	–	52,222,889
Utilized	(87,191,910)	(199,804)	(87,391,714)
At December 31, 2016	20,898,223	–	20,898,223
Arising during the year	**208,923,315**	**–**	**208,923,315**
Utilized	**(123,271,368)**	**–**	**(123,271,368)**
At December 31, 2017	**₱106,550,170**	**₱–**	**₱106,550,170**

16. **Accounts Payable and Other Liabilities**

This account consists of:

	2017	2016
VAT payable	**₱187,892,531**	₱124,832,924
Commission payable	**132,810,620**	121,714,743
Accounts payable	**68,513,830**	83,464,193
Withholding taxes payable	**81,592,644**	64,276,336
DST payable	**8,817,721**	12,351,379
Taxes payable	**12,687,551**	11,895,582
Accrued expenses	**4,737,078**	5,275,466
Others	**2,028,906**	2,370,252
	₱499,080,881	₱426,180,875

Others include loans and salary contributions payable.

17. **Capital Stock**

The Company's capital stock consists of:

	2017		2016	
	Shares	**Amount**	Shares	Amount
Common stock - ₱1,000 par value				
Authorized:				
At the beginning of the year	**300,000**	**₱300,000,000**	300,000	₱300,000,000
Increase	**1,000,000**	**1,000,000,000**	–	–
At the end of the year	**1,300,000**	**₱1,300,000,000**	300,000	₱300,000,000
Issued and outstanding:				
At the beginning of the year	**300,000**	**₱300,000,000**	300,000	₱300,000,000
Issuance during the year	**382,123**	**382,123,000**	–	–
At the end of the year	**682,123**	**₱682,123,000**	300,000	₱300,000,000

On September 23, 2016, the BOD approved the increase in authorized capital stock of the Company from ₱300,000,000 divided into 300,000 shares with a par value of ₱1,000 per share to ₱1,300,000,000 divided into 1,300,000 shares with a par value of ₱1,000 per share. The existing shareholders subscribed to the increase in authorized capital stock and paid ₱300,000,000 which is presented as 'Deposits for future stock subscription' under the equity section as of December 31, 2016 following the requirements of the SEC Financial Reporting Bulletin No. 006.

On December 20, 2016, the Company applied for the increase in authorized capital stock with the Philippines SEC.

On April 19, 2017, the Philippine SEC approved the application for increase in authorized capital stock from 300,000 shares to 1,300,000 shares at ₱1,000 per share. On the same date, the Company issued 300,000 shares at ₱1,000 per share and reclassified the deposits received in 2016 from 'Deposits for future stock subscription' to 'Capital stock'.

Also, on the same date, the Company issued 82,123 shares at ₱1,000 per share and reclassified the contributions from stockholders from 'Contingency surplus' to 'Capital stock'.

18. Net Insurance Earned Premiums

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

	2017	2016 (As restated - Note 2)
Gross premiums on insurance contracts:		
Direct insurance	**₱1,707,215,578**	₱1,427,969,187
Assumed reinsurance	**88,922,553**	152,775,334
Total gross premiums on insurance contracts (Note 14)	**1,796,138,131**	1,580,744,521
Gross change in provision for unearned premiums	**(75,830,236)**	(158,852,808)
Total gross earned premiums on insurance contracts (Note 14)	**1,720,307,895**	1,421,891,713
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	**264,105,378**	217,830,040
Assumed reinsurance	**207,023,705**	158,762,340
Total reinsurers' share of gross premiums on insurance contracts (Note 14)	**471,129,083**	376,592,380
Reinsurers' share of gross change in provision for unearned premiums	**9,827,727**	(8,322,300)
Total reinsurers' share of gross earned premiums on insurance contracts (Note 14)	**480,956,810**	368,270,080
Total net insurance earned premiums (Note 14)	**₱1,239,351,085**	₱1,053,621,633

19. Investment and other income (expense) - Net

This account consists of:

	2017	2016
Interest income on:		
AFS financial assets	**₱48,189,130**	₱27,428,417
Cash and cash equivalents	**3,665,066**	3,841,406
Security fund	**–**	13,321
Dividend income	**22,976,080**	23,434,548
Foreign exchange gain - net	**1,424,991**	2,311,200
Gain on sale of:		
AFS financial assets (Note 7)	**33,591,143**	13,354,874
Property and equipment (Note 11)	**961,359**	776,909
Impairment loss (Note 7)	**(1,938,026)**	(2,719,264)
Others	**2,326,725**	(226,866)
	₱111,196,468	₱68,214,545

20. Net Insurance Benefits and Claims

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

	2017	2016
Insurance contract benefits and claims paid:		
Direct insurance	**₱422,399,728**	₱437,435,859
Assumed reinsurance	**11,279,753**	29,424,490
Total insurance contract benefits and claims paid (Note 14)	**₱433,679,481**	₱466,860,349

Reinsurers' share of gross insurance contract benefits and claims paid consists of the following:

	2017	2016
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	**₱28,172,875**	₱45,028,265
Assumed reinsurance	**8,408,210**	62,306,221
Total reinsurers' share of insurance contract benefits and claims paid (Note 14)	**₱36,581,085**	₱107,334,486

Gross change in insurance contract liabilities consists of the following:

	2017	2016
Change in provision for claims reported (Note 14):		
Direct insurance	**₱300,965,766**	₱56,141,676
Assumed reinsurance	**5,442,531**	(1,506,079)
Change in provision for IBNR	**(33,611,944)**	32,265,220
Total gross change in insurance contract liabilities	**₱272,796,353**	₱86,900,817

Reinsurers' share of gross change in insurance contract liabilities consists of the following:

	2017	2016
Reinsurers' share of gross change in insurance contractliabilities (Note 14):		
Direct insurance	**₱96,790,156**	(₱61,170,180)
Reinsurers' share of change in provision for IBNR	**5,302,750**	1,830,605
Total reinsurers' share of gross change in insurance contract liabilities	**₱102,092,906**	(₱59,339,575)

21. Operating Expenses and Other Underwriting Expense

This account consists of:

	2017	2016
Salaries and employee benefits (Note 22)	**₱95,796,234**	₱88,997,824
Outside services	**22,731,453**	18,218,019
Rent	**11,734,420**	10,381,106
Advertising and promotion	**11,173,181**	8,555,471
Communication, light and water	**8,408,755**	6,992,943
Printing and office supplies	**6,402,800**	6,482,658
Repairs and maintenance	**6,938,672**	6,264,016
Transportation and travel	**5,934,399**	4,695,960
Entertainment, amusement and recreation	**3,738,837**	3,560,416
Depreciation (Note 11)	**3,561,269**	3,687,352
Taxes and licenses	**3,494,710**	5,538,572
Data processing charges	**3,321,252**	1,484,188
Agency fees	**2,930,081**	2,614,912
Director's fees	**1,920,000**	1,736,667
Insurance	**1,325,623**	1,346,271
Survey fees	**749,460**	851,030
Bank charges	**335,363**	294,605
Reversal of allowance for credit losses (Note 6)	**(768,226)**	(3,518,271)
Write-off of software	–	8,114,286
Miscellaneous	**5,358,486**	4,745,393
Total Operating Expenses	**₱195,086,769**	₱181,043,418

Other underwriting expenses amounted to ₱19,856,447 and ₱19,790,345 in 2017 and 2016, respectively. These generally pertain to the Company's share of the administrative and miscellaneous expenses reported by Philippine Accident Managers, Inc. and overseas Filipino workers' accounts.

22. Retirement Benefit Liability

The Company has a funded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The plan provides a retirement benefit equal to one hundred percent (100%) of Plan Salary for every year of credited service plus retirement bonus, if any. The plan is administered by a local bank as trustee.

The amount of retirement benefit liability recognized in the statements of financial position as of December 31, 2017 and 2016 follow:

	2017	2016
Present value of defined benefit obligation	**₱49,236,300**	₱41,262,705
Fair value of plan assets	**(42,361,454)**	(37,390,795)
Retirement benefit liability	**₱6,874,846**	₱3,871,910

Changes in present value of the defined benefit obligation as of December 31, 2017 and 2016 recognized in the statements of financial position follows:

	2017	2016
Balance at beginning of year	**₱41,262,705**	₱35,274,757
Current service cost	**5,605,727**	4,131,639
Interest cost	**2,434,500**	1,739,046
Benefits paid	**(585,318)**	(199,909)
Remeasurement (gains) losses		
Actuarial gains (losses) arising from changes in financial assumptions	**1,109,103**	(264,573)
Experience adjustments	**(590,417)**	581,745
Balance at end of year	**₱49,236,300**	₱41,262,705

Changes in the fair value of plan assets are as follow:

	2017	2016
Balance at beginning of year	**₱37,390,795**	₱27,584,446
Contributions	**5,441,382**	9,259,783
Interest income	**2,349,311**	1,583,239
Benefits paid	**(585,318)**	(199,909)
Return on plan assets excluding amount in net interest income	**(2,234,716)**	(836,764)
Balance at end of year	**₱42,361,454**	₱37,390,795

The amounts of defined benefit cost that is included under 'Salaries and employee benefits' in operating expenses follow:

	2017	2016
Current service cost	**₱5,605,727**	₱4,131,639
Net interest cost	**85,189**	155,807
	₱5,690,916	₱4,287,446

The amounts of defined benefit cost which is included in OCI related to remeasurement of retirement benefit lability follow:

	2017	2016
Actuarial loss on present value of retirement obligation	**(₱518,686)**	(₱317,172)
Return on plan assets excluding amount in net interest cost	**(2,234,716)**	(836,764)
	(2,753,402)	(1,153,936)
Income tax effect	**(826,021)**	(346,181)
	(₱1,927,381)	(₱807,755)

The fair values of plan assets by each class as at December 31, 2017 and 2016 are as follow:

	2017	2016
Cash and cash equivalents	**₱1,470,682**	₱11,074,477
Investments in:		
Government securities	**26,048,831**	24,112,996
Unit investment trust fund	**10,073,530**	–
Private securities	**4,200,954**	1,972,546
Accrued trust fees	**(43,656)**	(47,050)
Others	**611,113**	277,826
Total plan assets	**₱42,361,454**	₱37,390,795

Cash and cash equivalents include cash in savings deposit, special savings deposit, and time deposit accounts. Investments in debt instruments under government securities pertain to investments in retail treasury bonds while investments in debt instruments under private securities consist of investment in commercial papers, installment receivables and interest receivables.

All debt instruments held, except various receivables, have quoted prices in active market. The remaining plan assets are carried at their carrying amounts since the carrying amounts approximate the fair values.

The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used to determine pension benefits for the Company are as follows:

	2017	2016
Discount rate	**5.67%**	5.90%
Expected salary rate increase	**7.00%**	7.00%

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

	2017	
	Change in variables	**Impact on present value of defined benefit obligation Increase (Decrease)**
Discount rate	+100 bps	**(₱4,498,721)**
	-100 bps	**5,426,932**
Salary increase rate	+100 bps	**₱4,797,289**
	-100 bps	**(4,067,650)**

	2016	
	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
Discount rate	+100 bps	₱3,055,078
	–100 bps	(3,487,763)
Salary increase rate	+100 bps	₱3,060,622
	–100 bps	(2,750,467)

The Company does not expect any contribution to the plan for the next accounting period.

In 2017 and 2016, the weighted average duration of the retirement benefit obligation is 10.1 years and 10.3 years, respectively.

Maturity profile of the expected undiscounted benefit payments are as follow:

Financial Year	Amount
Year 1	**₱411,470**
Year 2	**6,553,014**
Year 3	**7,460,515**
Year 4	**2,438,780**
Year 5	**16,562,232**
Year 6 to Year 10	**8,542,961**

23. **Income Tax**

The components of the Company's net deferred tax asset consist of the tax effects of the following:

	2017	December 31, 2016 (As restated - Note 2)	January 1, 2016 (As restated - Note 2)
Deferred tax assets on:			
Allowance for credit losses	**₱6,535,649**	₱6,766,117	₱7,821,598
Pension obligation	**2,096,804**	1,161,573	2,307,093
IBNR - net	–	17,877,114	16,385,413
Excess of provision for unearned premiums per books over per tax basis	–	19,233,667	1,534,305
Deferred reinsurance commissions	–	3,540,182	3,286,073
	–	–	2,428,385
Total deferred tax assets	**8,632,453**	48,578,653	33,762,867
Deferred tax liabilities on:			
Unrealized foreign exchange gain	**427,497**	693,362	2,020,249
Deferred acquisition costs	–	49,336,581	42,024,304
Excess of deferred reinsurance premiums per books over tax basis	–	798,453	(2,172,329)
Total deferred tax liabilities	**427,497**	50,828,396	41,872,224
Net deferred tax assets (liabilities)	**₱8,204,956**	(₱2,249,743)	(₱8,109,357)

The table below shows the temporary differences for which no deferred tax assets have been recognized as management believes that it is not probable that the related tax benefit will be realized prior to its reversal or expiry.

	2017	2016	2015
Provision for IBNR – net	**₱56,317,303**	₱35,641,617	10,179,339
Unamortized past service cost	**11,072,782**	13,435,870	10,506,470
Accrued expense	**2,506,273**	3,453,316	1,717,030
NOLCO	–	1,718,971	6,375,646
Excess of MCIT over RCIT	–	–	5,217,286

As of December 31, 2017 and 2016, the Company's recognized deferred tax asset related to OCI amounted to ₱3,131,610 and ₱2,553,936, respectively.

Details of the Company's NOLCO follow:

Year Incurred	Amount	Applied	Expired	Balance	Expiry
2014	₱1,718,971	(₱1,718,971)	₱–	₱–	2017

The reconciliation of income before income tax computed at the statutory income tax rate to effective income tax follows:

	2017	December 31, 2016 (As restated - Note 2)
Tax at statutory income tax rate	**₱55,861,231**	₱25,300,323
Adjustments for:		
Nontaxable income	**(16,970,167)**	(8,908,124)
Interest income subjected to final tax	**(4,952,623)**	1,494,041
Nondeductible expenses	**1,958,144**	2,101,984
Change in unrecognized deferred tax assets	**4,680,909**	1,908,409
Provision for income tax	**₱40,577,494**	₱21,896,633

24. **Management of Capital, Insurance and Financial Risks**

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

The Company is guided by its standard operating procedures and internal control procedures designed to ensure attainment of the Company objective. More so it is strongly backed up by its strong treaty agreements, which more or less limits the risk acceptance.

The Company has already outlined its risk management manual and is for endorsement to the Risk Management Committee for approval. Said manual clearly outlines the structure of the Risk Management Organization and defines integral role of each position. It also states reportorial requirements and processes.

The Risk Management Committee is composed of not less than (3) members of the Board whereas, the Chief Underwriting Technical is appointed as the Risk Champion. To serve as member of the organization, the head of each department are automatically called the Risk Owner.

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., fixed capitalization requirements and risk-based capital requirements).

Capital Management Framework

The primary objectives of the Company's capital management is to ensure that the Company complies with externally imposed capital requirement and that the Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders. The level of capital maintained is higher than the minimum capital requirements set by the regulators as imposed under Department of Finance Order (DO) 27-06 and the amount computed under the Risk Based Capital (RBC) Framework.

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

Unimpaired capital requirement

Republic Act No. 10607, *New Insurance Code* provides the capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022 as follows:

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

IC CL No. 2015-02-A also requires that the minimum networth of insurance companies shall remain unimpaired at all times and shall increase to the amounts provided in RA No. 10607, *New Insurance Code*. Based on the latest synopsis issued by the IC as of December 31, 2016, the statutory networth of the Company amounted to ₱664,338,012 exceeding the ₱550,000,000 requirement by ₱114,338,012.

In 2016, the Company's major shareholder, MAA International Group Ltd (formerly MAA International Assurance Ltd) infused capital of ₱300,000 presented as 'Deposit for future stock subscription' under the equity section pending the approval of Philippine SEC of the Company's application for the increase in authorized capital stock.

In 2017, the Company issued 300,000 shares at ₱1,000 per share and reclassified the deposits received in 2016 from 'Deposit for future stock subscription' to 'Capital stock' (see Note 17)

Financial Reporting Framework

On December 28, 2016, IC issued Circular No. 2016-65 relating to financial reporting framework under section 189 of the Republic Act No. 10607 known as the "New Insurance Code" to clarify the rules and regulations concerning Titles III and IV of Chapter III of the New Insurance Code and all the other accounts not discussed in the New Insurance Code but are used in accounting of insurance and reinsurance companies. The circular enumerated the list of admitted and non-admitted assets and investments. It includes the manual of accounts which enumerates certain admitted assets not specifically listed in Section 202 of the New Insurance Code. The circular takes effect beginning

January 1, 2017.

Risk-based Capital Ratio
Under existing IC regulations, the determination of the Company's compliance with regulatory requirements and ratios is based on the amount of the Company's unimpaired capital (regulatory net worth), determined on the basis of regulatory framework.

Effective January 1, 2017, the Company complied with the IC issued CL No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework* which provides the quantitative requirements in relation to the calculation of capital requirements and recognition of eligible capital. The circular sets out a minimum RBC ratio of 100%. Under the amended RBC2 Framework, RBC ratios is the total available capital expressed as a percentage of RBC requirement. Total available capital is the aggregate of Tier 1 and Tier 2 capital minus deductions determined on the basis of regulatory framework and subject to applicable limits. The RBC requirement is the capital that is required to be held appropriately to the risks and insurance company is exposed to.

Prior to January 1, 2017, the risk-based capital ratio is computed in accordance with IC CL No. 2015-30.

The risk-based capital ratio reported to the IC as of December 31, 2017 and 2016 based on IC CL Nos. 2016-68 and 2015-30, respectively, are shown below:

	2017	2016
Total available capital	**₱1,040,014,240**	₱–
Net worth	–	664,338,012
RBC requirement	**519,939,420**	405,072,792
RBC Ratio	**200%**	164%

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

The Company principally issues the following types of general insurance contracts: fire, motor, health and accident, aviation/hull, marine, engineering, professional indemnity, bonds, fidelity guarantee and surety. Risks under general insurance policies usually cover twelve month duration.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities.

These risks vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

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

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

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

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

		2017	
	Gross claim liabilities	**Reinsurers' share of claims liabilities**	**Net claims liabilities**
Fire	**₱401,730,992**	**₱180,692,993**	**₱221,037,999**
Motor	**358,916,052**	**12,298,839**	**346,617,213**
General Accounts	**75,720,160**	**36,053,044**	**39,667,116**
Marine	**67,413,295**	**31,725,381**	**35,687,914**
Bonds	**42,594,820**	**13,662,182**	**28,932,638**
Engineering	**26,342,910**	**13,006,561**	**13,336,349**
Personal Accident	**11,778,221**	**1,303,482**	**10,474,739**
Total	**₱984,496,450**	**₱288,742,482**	**₱695,753,968**

		2016	
	Gross Claim Liabilities	Reinsurers' Share of Claims Liabilities	Net Claims Liabilities
Fire	₱277,668,009	₱115,640,111	₱162,027,898
Motor	254,778,788	12,106,297	242,672,491
Marine	56,280,641	37,652,927	18,627,714
General Accounts	42,040,197	5,911,720	36,128,477
Bonds	28,804,388	15,471,554	13,332,834
Personal Accident	9,561,146	79,160	9,481,986
Engineering	8,954,984	5,090,557	3,864,427
Total	₱678,088,153	₱191,952,326	₱486,135,827

Terms and Conditions
The major classes of general insurance written by the Company include fire, motor, and marine insurance.

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

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

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

Assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key assumptions include variation in interest rate, delays in settlement and changes in foreign currency rates.

Sensitivities

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

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

	2017				
	Change in assumptions	**Increase on gross liabilities**	**Increase on net liabilities**	**Decrease on profit before tax**	**Decrease on Equity**
Average claim cost	**15%**	**₱147,674,468**	**₱104,363,095**	**(₱104,363,095)**	**(₱73,054,167)**
Average number of claims	**10%**	**98,449,645**	**8,447,595**	**(8,447,595)**	**(5,913,317)**

	2016				
	Change in assumptions	Increase on gross liabilities	Increase on net liabilities	Decrease on profit before tax	Decrease on Equity
Average claim cost	+15%	₱101,713,223	₱72,920,374	(₱72,920,374)	(₱51,044,262)
Average number of claims	+10%	67,808,815	48,613,583	(48,613,583)	(34,029,508)

Claims Development Table

Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis.

The tables reflect the cumulative incurred claims for each successive accident year at each end of the reporting period with cumulative payments to date. The same is the basis in the actuarial valuation of NMG, the Company's independent actuary.

As of December 31, 2017, the Company recognized provision for IBNR of ₱56,317,303 which includes an MfAD of ₱43,383,000.

While IC CL No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework*, allows insurance companies to set MfAD at zero for the initial implementation of the new IC Circular starting January 1, 2017, the Company opted to retain the amount of MfAD in preparation of its full implementation in 2018.

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

Accident Year/ Development year	Gross Insurance Liabilities 1	2	3	4	5	6	7	8	9	10	11	Total
<=2007	₱1,223,677,990	₱1,438,931,126	₱1,505,991,148	₱1,541,690,203	₱1,523,534,118	₱1,517,579,157	₱1,516,617,872	₱1,517,186,415	₱1,518,309,799	₱1,518,770,313	₱1,533,326,956	₱1,533,326,956
2008	317,866,976	321,010,376	325,672,236	316,347,404	314,387,980	314,460,753	314,709,864	315,068,781	315,475,331	315,179,041		315,179,041
2009	685,987,405	618,994,017	662,545,009	663,878,685	663,812,376	662,759,069	655,384,141	655,523,171	655,090,741			655,090,741
2010	323,743,628	302,300,533	317,840,725	323,560,292	321,185,827	320,940,163	320,658,171	319,592,701				319,592,701
2011	357,215,742	339,883,749	340,339,887	321,170,838	318,870,375	318,100,345	317,554,680					317,554,680
2012	417,273,319	381,289,376	352,982,595	349,361,404	347,347,017	346,332,131						346,332,131
2013	818,711,605	702,425,653	658,753,813	649,414,578	645,436,215							645,436,215
2014	433,750,968	388,863,751	367,339,995	335,242,983								335,242,983
2015	523,181,551	480,792,407	432,917,350									432,917,350
2016	595,839,733	606,243,715										606,243,715
2017	809,438,785											809,438,785
Current estimate of cumulative claims	809,438,785	606,243,715	432,917,350	335,242,983	645,436,215	346,332,131	317,554,680	319,592,701	655,090,741	315,179,041	1,533,326,956	6,316,355,298
Cumulative payments to date	214,454,048	370,044,191	391,448,119	318,547,796	604,626,496	342,608,590	317,430,959	314,592,701	643,890,741	314,779,041	1,499,436,166	5,331,858,848
Total gross insurance liabilities included in the statement of financial position	₱594,984,737	₱236,199,524	₱41,469,231	₱16,695,187	₱40,809,719	₱3,723,541	₱123,721	₱5,000,000	₱11,200,000	₱400,000	₱33,890,790	₱984,496,450

Accident Year/ Development year	Net Insurance Liabilities 1	2	3	4	5	6	7	8	9	10	11	Total
<=2007	₱698,752,199	₱870,395,112	₱971,744,401	₱1,011,638,934	₱1,026,422,298	₱1,023,411,096	₱1,022,308,511	₱1,022,507,201	₱1,022,747,192	₱1,022,806,419	₱1,030,938,283	₱1,030,938,283
2008	152,090,962	163,243,902	170,184,058	163,035,192	161,559,070	161,631,337	161,269,173	161,288,733	161,336,891	161,347,258		161,347,258
2009	193,717,967	206,131,148	207,012,280	209,203,383	209,472,394	208,566,041	207,039,998	207,180,112	207,157,258			207,157,258
2010	182,939,074	161,426,477	166,361,396	166,154,526	164,293,769	164,503,441	164,380,335	164,255,881				164,255,881
2011	197,949,482	192,912,185	192,756,496	182,280,019	181,194,645	181,226,740	181,113,858					181,113,858
2012	203,181,448	210,847,628	197,301,490	197,375,103	197,237,011	196,877,497						196,877,497
2013	289,705,937	278,324,875	240,558,666	248,497,697	247,881,161							247,881,161
2014	292,646,568	280,910,280	267,794,147	252,977,567								252,977,567
2015	436,999,411	394,550,808	365,304,569									365,304,569
2016	519,790,150	507,324,278										507,324,278
2017	662,839,503											662,839,503
Current estimate of cumulative claims	662,839,503	507,324,278	365,304,569	252,977,567	247,881,161	196,877,497	181,113,858	164,255,881	207,157,258	161,347,258	1,030,938,283	3,978,017,113
Cumulative payments to date	209,265,898	339,631,630	325,080,281	243,966,503	233,444,331	194,715,146	181,105,861	163,827,756	207,136,258	161,299,876	1,022,789,605	3,282,263,145
Total net insurance liabilities included in the statement of financial position	₱453,573,605	₱167,692,648	₱40,224,288	₱9,011,064	₱14,436,830	₱2,162,351	₱7,997	₱428,125	₱21,000	₱47,382	₱8,148,678	₱695,753,968

Fair Value of Financial Instruments
Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, receivables, accrued income, insurance payables, accounts payable and commission payable, their carrying values reasonably approximate fair values as of December 31, 2017 and 2016.

The fair value of financial instruments under AFS that are actively traded in organized financial markets is determined by reference to quoted market prices within the bid-offer price range, at the close of business on the end of the reporting period or the last trading day as applicable.

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

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

The table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

	2017			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
AFS Financial Assets				
Listed equity securities				
Common shares	**₱463,491,860**	**₱–**	**₱–**	**₱463,491,860**
Preferred shares	**291,213,250**	–	–	**291,213,250**
Club shares	–	**3,300,000**	–	**3,300,000**
Government debt securities	**603,958,546**	–	–	**603,958,546**
Private debt securities	**603,354,774**	–	–	**603,354,774**
Total AFS financial assets	**₱1,962,018,430**	**₱3,300,000**	**₱–**	**₱1,965,318,430**

	2016			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
AFS Financial Assets				
Listed equity securities				
Common shares	₱214,771,749	₱–	₱–	₱214,771,749
Preferred shares	276,095,880	–	–	276,095,880
Club shares	–	3,500,000	–	3,500,000
Government debt securities	301,503,381	–	–	301,503,381
Private debt securities	464,129,558	–	–	464,129,558
Total AFS financial assets	₱1,256,500,568	₱3,500,000	₱–	₱1,260,000,568

As of December 31, 2017 and 2016, no transfers were made among the three levels in the fair value hierarchy.

Financial Risk
The Company is exposed to financial risk through its financial assets and financial liabilities, particularly, credit risk, liquidity risk, and market risk (foreign exchange, interest rate, and equity price risks). The BOD reviews and amends policies for managing each of these risks.

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

The Company manages the level of credit risk by setting up limits of exposure. Exposure in the sense that the concentration of its businesses is widespread in scope, in terms of counterparties involved, location or geographical and industry segments. A counterparty may be subjected to a credit investigation prior to entering into a contract considering the financial condition or credit standing and character of the prospective producer, reinsurer and policy holder.

Regular review of company policies is being conducted to ensure proper monitoring of direct and reinsurance receivables versus payables. The Company reserves the right to offset where counterparties are both debtors and creditors; cancel policies which are beyond the credit-term or those with lesser probability of being collected and terminate contract which the management believes to be non-productive. Commissions and claims are likewise being used as leverage to collect from counterparty. In the event of a major loss, the Company is backed up by reinsurers with strong financial standing. Reinsurers and agents' portfolio are periodically being rated with A+ being the highest and B- the lowest.

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 reinsurance ceded, to the extent that any reinsurer may be unable to meet its obligations assumed under such reinsurance agreements. The Company selects only domestic and foreign companies with strong financial standing and excellent track records which are allowed to participate in the Company's reinsurance programs.

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.

	2017					
	Neither past due nor impaired			Past due but		
	High	Medium	Low	not impaired	Impaired	Total
Cash and cash equivalents*	₱300,924,957	₱–	₱–	₱–	₱–	₱300,924,957
Short-term investments	55,381,058	–	–	–	–	55,381,058
Insurance receivables:						
Due from brokers and agents	380,694,984	–	–	147,229,458	3,361,165	531,285,607
Due from ceding companies	384,734	–	–	6,889,498	141,201	7,415,433
Funds held by ceding company	5,492,472	–	–	–	–	5,492,472
Reinsurance recoverable on paid losses	2,471,706	–	–	2,420,186	18,283,131	23,175,023
Financial assets:						
AFS financial assets:**						
Debt securities	1,207,313,320	–	–	–	–	1,207,313,320
Receivables:						
Accounts receivable	32,192,975	–	–	–	–	32,192,975
Miscellaneous receivables	795,786	–	–	–	–	795,786
Accrued income	13,828,216	–	–	–	–	13,828,216
Total	₱1,999,480,208	₱–	₱–	₱156,539,142	₱21,785,497	₱2,177,804,847

**Excluding cash on hand*
***Excluding equity securities*

	2016					
	Neither past due nor impaired			Past due but		
	High	Medium	Low	not impaired	Impaired	Total
Cash and cash equivalents*	₱584,031,595	₱–	₱–	₱–	₱–	₱584,031,595
Short-term investments	54,881,781	–	–	–	–	54,881,781
Insurance receivables:						
Due from brokers and agents	256,233,497	–	–	187,540,174	8,872,053	452,645,724
Due from ceding companies	1,561,267	–	–	2,406,237	30,918	3,998,422
Funds held by ceding company	5,281,913	–	–	–	–	5,281,913
Reinsurance recoverable on paid losses	2,059,783	–	–	3,410,388	13,650,752	19,120,923
Financial assets:						
AFS financial assets: **						
Debt securities	765,632,939	–	–	–	–	765,632,939
Receivables:						
Accounts receivable	2,181,943	–	–	–	–	2,181,943
Miscellaneous receivables	491,970	–	–	–	–	491,970
Accrued income	8,854,071	–	–	–	–	8,854,071
Total	₱1,681,210,759	₱–	₱–	₱193,356,799	₱22,553,723	₱1,897,121,281

**Excluding cash on hand*
***Excluding equity securities*

The credit quality of the financial assets was determined as follows:

a. *Cash and cash equivalents and short-term investments*
These are classified as high grade. These are deposited, placed or invested in local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b. *Insurance receivables and other receivables*
These are classified as either high grade or past due. High grade is given to counterparties having good standing in terms of credit and paying habits. Accounts beyond the standard 90-day credit terms are classified as past due. Although categorized as past due, these are highly collectible accounts based on Company's experience. Normally, these are corporate accounts wherein the Company has reciprocity of business. However, it took a while for some accounts to revert to Collection department and secure their commitments.

c. *Debt securities*
These are classified as High grade. The government debt securities are issued by the Philippine Government and are considered as risk-free debt securities. The corporate debt securities are issued by stable companies and are considered to be of high creditworthiness.

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

	2017				
	Age analysis of financial assets past-due but not impaired				**Total past due but**
	< 30 days	**31 to 60 days**	**61 to 90 days**	**> 90 days**	**not impaired**
Insurance receivables					
Due from brokers and agents	**₱53,024,169**	**₱33,593,540**	**₱26,564,778**	**₱34,046,971**	**₱147,229,458**
Due from ceding companies	**3,528,031**	**986,886**	**810,943**	**1,563,638**	**6,889,498**
Reinsurance recoverable on paid losses	**1,918,052**	**502,134**	**–**	**–**	**2,420,186**
	₱58,470,252	**₱35,082,560**	**₱27,375,721**	**₱35,610,609**	**₱156,539,142**

	2016				
	Age analysis of financial assets past-due but not impaired				Total past due but not impaired
	< 30 days	31 to 60 days	61 to 90 days	> 90 days	
Insurance receivables					
Due from brokers and agents	₱65,006,321	₱38,138,282	₱39,587,846	₱44,807,725	₱187,540,174
Due from ceding companies	–	742,337	1,663,900	–	2,406,237
Reinsurance recoverable on paid losses	395,365	25,646	117,641	2,871,736	3,410,388
Total	₱65,401,686	₱38,906,265	₱41,369,387	₱47,679,461	₱193,356,799

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

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

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

To strike the optimal balance between generating adequate investment returns and holding securities that can be easily sold for cash if required, the Company divides its investment portfolio into tranches with liquidity objective and benchmarks. The Company's core liquidity portfolio is invested in relatively liquid securities that can be readily sold if required. In addition to the core portfolio, the Company maintains a second tranche of liquidity that is always invested in the most highly liquid securities to cover its expected operational cash flow needs. The third tranche of liquidity are the Company's equity resources held together with a portfolio of fixed income securities which are both designated as AFS investments.

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

	2017				
	Within a year	**2-3 years**	**4-5 years**	**Over 5 years**	**Total**
Cash and cash equivalents	**₱301,129,957**	**₱–**	**₱–**	**₱–**	**₱301,129,957**
Short-term investments	**55,381,058**	**–**	**–**	**–**	**55,381,058**
Insurance receivables	**567,368,535**	**–**	**–**	**–**	**567,368,535**
AFS securities	**39,889,918**	**132,634,204**	**563,909,671**	**1,228,904,637**	**1,965,338,430**
Receivables	**32,988,761**	**–**	**–**	**–**	**32,988,761**
Accrued income	**13,828,216**	**–**	**–**	**–**	**13,828,216**
Reinsurance assets	**357,782,215**	**–**	**–**	**–**	**357,782,215**
Total financial assets	**₱1,368,368,660**	**₱132,634,204**	**₱563,909,671**	**₱1,228,904,637**	**₱3,293,817,172**
Insurance contract liabilities	**₱1,109,853,486**	**₱–**	**₱–**	**₱–**	**₱1,109,853,486**
Insurance payables	**106,550,170**	**–**	**–**	**–**	**106,550,170**
Accounts payable and other liabilities*	**74,672,522**	**–**	**–**	**–**	**74,672,522**
Commission payable	**132,810,620**	**–**	**–**	**–**	**132,810,620**
Total other financial liabilities	**₱1,423,886,798**	**₱**	**₱–**	**₱–**	**₱1,423,886,798**

**Excluding statutory liabilities*

	2016				
	Within a year	2-3 years	4-5 years	Over 5 years	Total
Cash and cash equivalents	₱584,181,595	₱–	₱–	₱–	₱584,181,595
Short-term investments	54,881,781	–	–	–	54,881,781
Insurance receivables	481,046,982	–	–	–	481,046,982
AFS securities	3,999,593	65,135,087	148,721,424	1,042,164,464	1,260,020,568
Receivables	2,673,913	–	–	–	2,673,913
Accrued income	8,854,071	–	–	–	8,854,071
Reinsurance assets	255,689,309	–	–	–	255,689,309
Total financial assets	₱1,391,327,244	₱65,135,087	₱148,721,424	₱1,042,164,464	₱2,647,348,219
Insurance contract liabilities	₱837,057,133	₱–	₱–	₱–	₱837,057,133
Insurance payables	20,898,223	–	–	–	20,898,223
Accounts payable and other liabilities*	90,581,299	–	–	–	90,581,299
Commission payable	121,714,743	–	–	–	121,714,743
Total other financial liabilities	₱1,070,251,398	₱	₱–	₱–	₱1,070,251,398

**Excluding statutory liabilities*

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk).

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

(a) Currency risk

Currency risk is the risk that the value of the financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in Philippine Peso and foreign currency-denominated transactions are primarily in terms of the US Dollar. The following tables show the Company's exposure to currency risk:

	2017		2016	
	USD	**PHP**	USD	PHP
Financial assets:				
Cash and cash equivalents	**\$1,232,769**	**₱61,552,165**	\$431,689	₱21,463,600

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities).

	2017	
	Change in variables	**Impact on profit before tax Increase (decrease)**
USD	**+5.00%**	**₱3,077,599**
USD	**-5.00%**	**(₱3,077,599)**

	2016	
	Change in variables	Impact on profit before tax Increase (decrease)
USD	+5.00%	1,073,156
USD	-5.00%	(1,073,156)

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

(b) Interest rate risk

Interest rate risk arises from the possibility that the future cash flows of a financial instrument will fluctuate because of changes in interest rates.

As of December 31, 2017 and 2016, the Company has no exposure to interest rate risk since its financial instruments are not subject to floating interest rate.

(c) Price risk

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

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

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

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

	2017	
Market Index	Change in PSEi	Impact on equity Increase (decrease)
PSEi 2017	+12.33%	₱31,511,925
PSEi 2017	-12.33%	(31,511,925)

	2016	
Market Index	Change in PSEi	Impact on equity Increase (decrease)
PSEi 2016	+18.30%	₱30,683,096
PSEi 2016	-18.30%	(30,683,096)

25. Related Party Transactions

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or if the parties are subject to common control or common significant influence. A related party may be an individual or a corporate entity.

In the ordinary course of business, the Company has transactions with related parties. As of December 31, 2017 and 2016, significant transactions with related party follow:

	2017	2016
Short-term benefits		
Key Management Personnel	₱27,556,896	₱23,264,129

26. Contingencies

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, management believes that no material liabilities are likely to result.

27. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

In compliance with the requirements set forth by RR No. 15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year.

a. The Company is a VAT-registered company with VAT output tax declaration of ₱118,746,859 for the year based on the amount reflected in the Direct Premiums of ₱989,557,156.

   The Company has exempt sales amounting to ₱31,515,494 pursuant to the provisions of Republic Act No. 7227, RR No. 2-2005, and BIR Ruling ITAD-45-00

b. The amount of input VAT taxes claimed are broken down as follows:

	VAT Amount
Balance at beginning of year	₱7,346,260
Current year's purchases/payments:	
Goods other than for resale	25,714,016
Services paid lodged under operating expenses	34,184,816
	67,245,092
Input VAT applied against Output VAT	(58,338,005)
Balance at December 31	₱8,907,087

c. Taxes relating to nonlife insurance policies that have been shifted or passed on the policyholders and are not recognized in the statement of income follow:

Details of DST for following transactions during the year are:

Transaction	Amount	DST
DS110-Policies of insurance upon property	₱833,707,748	₱104,213,469
DS114-Motor	724,448,846	90,556,106
DS109-Accident and Health	149,058,984	372,647
	₱1,707,215,578	₱195,142,222

The total unpaid DST as at December 31, 2016 amounted to ₱8,817,721.

Other taxes during year which represent the total accrued and paid follow:

Tax	Amount
Fire Service Taxes (FST)	₱4,684,507
Premium Taxes	3,074,645
Local Government Taxes (LGT)	1,184,092
	₱8,943,244

The total unpaid as at December 31, 2017 amounted to ₱12,687,551 which comprised of ₱1,105, ₱131,215, and ₱12,555,231 for Premium Taxes, FST, and LGT, respectively.

d. Details of other taxes, local and national, follow:

National:

DST	₱2,209,657
IC Fees	769,462
LTO Registration Fees	22,256
FBT	39,153
Total	₱3,040,528

Local:

Real Estate Taxes	₱41,068
Others	135,574
Total	₱176,642

e. The amount of withholding taxes for the year amounted to :

Tax on compensation and benefits	₱13,033,712
Expanded withholding taxes	34,263,467
Final withholding taxes	2,645,055
Total	₱49,942,234

The total unpaid withholding taxes as at December 31, 2017 amounted to ₱81,592,644 which comprised of ₱1,872,567, ₱79,471,810 and ₱248,267 for Tax on compensation, creditable and withholding on final taxes, respectively.

f. As of December 31, 2017, the Company has no tax assessment.