Republic Surety and Insurance Company, Incorporated

Financial Statements
December 31, 2017
(with Comparative Figures for December 31, 2016 and 2015)

and

Independent Auditors' Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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
Republic Surety and Insurance Company, Incorporated

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Republic Surety and Insurance Company, Incorporated (the Company), which comprise the statement of financial position as at December 31, 2017, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, 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.

Other Matter

The financial statements of the Company for the years ended December 31, 2016 and 2015 were audited by another auditor who expressed an unmodified opinion on those statements on April 7, 2017. As part of our audit of the 2017 financial statements, we also audited the adjustments described in Note 28 that were applied to the 2016 financial statements and the Statement of Financial Position as at December 31, 2015 to come up with the Statement of Financial Position as at January 1, 2016 presented herein as corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 and 2015 financial statements of the Company other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2016 and 2015 financial statements taken as a whole.

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 Regulation No. 15-2010 in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Republic Surety and Insurance Company, Incorporated. 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.

Bernalette L. Ramos

Bernalette L. Ramos
Partner
CPA Certificate No. 0091096
SEC Accreditation No. 0926-AR-2 (Group A),
June 16, 2016, valid until June 16, 2019
Tax Identification No. 178-486-666
BIR Accreditation No. 08-001998-81-2015,
May 12, 2015, valid until May 11, 2018
PTR No. 6621314, January 9, 2018, Makati City

March 6, 2018

REPUBLIC SURETY AND INSURANCE COMPANY, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

		December 31	January 1
	2017	2016 (as restated - Note 28)	2016 (as restated - Note 28)
ASSETS			
Cash and cash equivalents (Notes 6 and 26)	**₱562,106,555**	₱252,049,420	₱244,016,881
Insurance receivables - net (Notes 7 and 26)	**176,667,367**	158,752,990	160,879,722
Financial assets (Notes 9 and 26)			
Held-to-maturity financial assets	**162,455,202**	138,677,004	116,481,090
Available-for-sale financial assets	**540,704**	437,648	529,856
Loans and receivables	**2,254,760**	2,746,290	1,995,837
Reinsurance assets (Notes 8 and 13)	**323,254,041**	208,137,355	201,463,168
Deferred acquisition costs (Note 10)	**16,664,712**	23,292,396	18,616,795
Property and equipment - net (Note 11)	**6,018,626**	9,273,220	12,691,836
Deferred tax assets - net (Note 21)	**13,191,958**	14,191,586	9,470,271
Other assets (Note 12)	**39,332,507**	31,315,443	22,318,355
	₱1,302,486,432	₱838,873,352	₱788,463,811
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Note 13)	**₱605,969,117**	₱489,686,200	₱396,775,944
Insurance payables (Note 14)	**214,553,081**	187,096,374	141,472,868
Deferred reinsurance commissions (Note 10)	**9,662,500**	12,824,859	6,272,134
Accounts and other payables (Notes 15 and 26)	**33,514,800**	47,018,812	24,102,030
Pension liability (Note 23)	**24,313,395**	16,217,479	15,129,448
	888,012,893	752,843,724	583,752,424
Equity			
Capital stock (Note 16)	**565,000,000**	250,000,000	250,000,000
Contributed surplus (Note 16)	**151,084,805**	44,269	44,269
Deficit	**(300,033,486)**	(161,472,755)	(42,494,074)
Other comprehensive income			
Remeasurement losses on pension liability (Note 23)	**(979,079)**	(1,840,129)	(2,229,259)
Revaluation reserve for available-for-sale financial assets (Note 9)	**(598,701)**	(701,757)	(609,549)
	414,473,539	86,029,628	204,711,387
	₱1,302,486,432	₱838,873,352	₱788,463,811

See Notes to the Financial Statements.

REPUBLIC SURETY AND INSURANCE COMPANY, INCORPORATED
STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016 (as restated - Note 28)	2015 (as restated - Note 28)
INCOME			
Gross earned premiums on insurance contracts	**₱589,827,398**	₱642,724,334	₱614,153,717
Reinsurers' share of gross earned premiums on insurance contracts	**(508,910,575)**	(512,260,025)	(508,975,364)
Net premiums earned (Note 17)	**80,916,823**	130,464,309	105,178,353
Commission income (Note 10)	**24,551,808**	22,292,269	26,310,872
Interest income (Notes 6, 9 and 18)	**7,035,369**	7,043,447	7,683,544
Others - net (Note 18)	**1,115,916**	1,275,713	1,325,982
Other underwriting income	–	–	2,097,440
Other income	**32,703,093**	30,611,429	37,417,838
Total Income	**113,619,916**	161,075,738	142,596,191
Gross insurance contract benefits and claims paid	**178,006,330**	115,377,426	186,453,510
Reinsurers' share of gross insurance contract benefits and claims paid	**(100,013,655)**	(62,362,265)	(128,244,105)
Gross change in insurance contract liabilities	**160,036,455**	53,183,918	(387,975,599)
Reinsurers' share of gross change in insurance contract liabilities	**(135,775,997)**	27,495,300	397,452,086
Net insurance benefits and claims (Notes 13 and 19)	**102,253,133**	133,694,379	67,685,892
Commission expense (Note 10)	**47,501,920**	56,603,216	50,351,357
Other Underwriting Expense	**8,634,532**	7,550,780	3,987,031
General and administrative expenses (Note 20)	**91,755,433**	85,688,114	84,757,480
Other expenses	**147,891,885**	149,842,110	139,095,868
Total Benefits, Claims and Other Expenses	**250,145,018**	283,536,489	206,781,760
LOSS BEFORE INCOME TAX	**(136,525,102)**	(122,460,751)	(64,185,569)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)			
Current	**1,405,022**	1,406,016	1,527,088
Deferred	**630,607**	(4,888,086)	(7,946)
	2,035,629	(3,482,070)	1,519,142
NET LOSS	**(₱138,560,731)**	(₱118,978,681)	(₱65,704,711)

REPUBLIC SURETY AND INSURANCE COMPANY, INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016 (as restated - Note 28)	2015 (as restated - Note 28)
NET LOSS	**(₱138,560,731)**	(₱118,978,681)	(₱65,704,711)
OTHER COMPREHENSIVE INCOME			
Item that will be reclassified to profit or loss			
Fair value gain (loss) on available-for-sale financial assets (Note 9)	**103,056**	(92,208)	21,696
Item that will not be reclassified to profit or loss			
Remeasurement gain on pension liability (Note 23)	**1,230,071**	555,900	237,378
Tax effect (Note 23)	**(369,021)**	(166,770)	(71,214)
	861,050	389,130	166,165
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**964,106**	296,922	187,861
TOTAL COMPREHENSIVE LOSS	**(₱137,596,625)**	(₱118,681,759)	(₱65,516,850)

See Notes to the Financial Statements.

REPUBLIC SURETY AND INSURANCE COMPANY, INCORPORATED

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 16)	**Contributed Surplus** (Note 16)	**Reserve for Retirement Liability** (Note 23)	**Revaluation Reserve on Available-for Sale Financial Assets** (Note 9)	**Retained Earnings (Deficit)**	**Total**
As at January 1, 2017						
as previously reported	**₱250,000,000**	**₱44,269**	**(₱1,840,129)**	**(₱701,757)**	**(₱6,164,473)**	**₱241,337,910**
Change in accounting policy and other adjustments (Note 28)	–	–	–	–	**(155,308,282)**	**(155,308,282)**
As restated	**250,000,000**	**₱44,269**	**(₱1,840,129)**	**(₱701,757)**	**(161,472,755)**	**86,029,628**
Net loss for the year	–	–	–	–	**(138,560,731)**	**(138,560,731)**
Other comprehensive income	–	–	**861,050**	**103,056**	–	**964,106**
Total comprehensive loss	–	–	**861,050**	**103,056**	**(138,560,731)**	**(137,596,625)**
Capital infusions (Note 16)	**315,000,000**	**151,040,536**	–	–	–	**466,040,536**
As at December 31, 2017	**₱565,000,000**	**₱151,084,805**	**(₱979,079)**	**(₱598,701)**	**(₱300,033,486)**	**₱414,473,539**
As at January 1, 2016						
as previously reported	₱250,000,000	₱44,269	(₱2,229,259)	(₱609,549)	₱82,751,307	₱329,956,768
Change in accounting policy and other adjustments (Note 28)	–	–	–	–	(125,245,381)	(125,245,381)
As restated	250,000,000	44,269	(2,229,259)	(609,549)	(42,494,074)	204,711,387
Net loss for the year	–	–	–	–	(118,978,681)	(118,978,681)
Other comprehensive income (loss)	–	–	389,130	(92,208)	–	296,922
Total comprehensive loss	–	–	389,130	(92,208)	(118,978,681)	(118,681,759)
As at December 31, 2016	₱250,000,000	₱44,269	(₱1,840,129)	(₱701,757)	(₱161,472,755)	₱86,029,628

See Notes to the Financial Statements.

REPUBLIC SURETY AND INSURANCE COMPANY, INCORPORATED
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱136,525,102)**	(₱122,460,751)
Adjustments for:		
Retirement expense (Notes 20 and 23)	**9,325,987**	2,934,165
Depreciation expense (Notes 11 and 20)	**4,082,236**	4,554,799
Amortization of bond premium (discount) (Note 9)	**(412,227)**	469,690
Unrealized foreign exchange loss (gain) (Note 18)	**354,304**	(196,176)
Loss on disposal of assets	**100,398**	285,400
Interest income (Notes 6, 9 and 18)	**(7,035,369)**	(7,043,447)
Operating loss before changes in working capital changes	**(130,109,773)**	(121,456,321)
Changes in operating assets and liabilities:		
Decrease (increase) in operating assets:		
Reinsurance assets	**(115,116,686)**	(6,674,187)
Insurance receivables	**(17,914,377)**	2,126,732
Other assets	**(8,017,064)**	(8,997,088)
Deferred acquisition costs	**6,627,684**	(4,675,601)
Loans and receivables	**399,273**	(1,006,740)
Increase (decrease) in operating liabilities:		
Insurance contract liabilities	**116,282,917**	92,910,256
Insurance payable	**27,456,707**	45,623,506
Accounts and other payables	**(13,504,012)**	22,916,782
Deferred reinsurance commission	**(3,162,359)**	6,552,725
Cash provided by (used in) operating activities	**(137,057,690)**	27,320,064
Benefits paid (Note 23)	**–**	(1,290,234)
Income tax paid (Note 21)	**(1,405,022)**	(1,406,016)
Net cash provided by (used in) operating activities	**(138,462,712)**	24,623,814
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Held-to-maturity investments (Note 9)	**(56,904,471)**	(75,688,127)
Property and equipment (Note 11)	**(1,228,265)**	(1,761,585)
Proceeds from sale/maturity of:		
Held-to-maturity investments (Note 9)	**33,538,500**	53,022,523
Property and equipment (Note 11)	**300,225**	340,002
Interest received	**7,127,626**	7,299,736
Net cash used in investing activities	**(17,166,385)**	(16,787,451)

(Forward)

	Years Ended December 31	
	2017	2016 (as restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares of stock (Note 16)	**₱315,000,000**	₱–
Additions to contributed surplus (Note 16)	**151,040,536**	–
Net cash provided by financing activities	**466,040,536**	–
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (Note 25)	**(354,304)**	196,176
NET INCREASE IN CASH AND CASH EQUIVALENTS	**310,057,135**	8,032,539
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**252,049,420**	244,016,881
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱562,106,555**	₱252,049,420

See Notes to the Financial Statements.

REPUBLIC SURETY AND INSURANCE COMPANY, INCORPORATED
NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

Republic Surety and Insurance Company, Incorporated (the "Company") was originally incorporated and registered with the Philippine Securities and Exchange Commission (SEC) in 1948. The Company's corporate life has been extended for another 50 years up to 2048.The Company's principal office is located at 7th Floor, Tower 1, The Rockwell Business Center, Ortigas Avenue, Pasig City.

The Company is engaged in the business of indemnifying insured parties against loss, damage or liability arising from an unknown or contingent event. It has a certificate of authority issued by the Insurance Commission (IC) to transact in non-life (bonds, casualty, fire, engineering, motor, marine and personal accident) insurance business until December 31, 2018.

On December 19, 2017, Pioneer Insurance & Surety Corporation ("PISC") subscribed to 51% of the equity of the Company by infusing ₱288,150,000. Manila Electric Company ("MERALCO"), the parent company up to December 18, 2017, infused ₱177,890,536 to keep its ownership of 49%.

PISC is a domestic corporation with registered office address of Pioneer house, 108 Paseo de Roxas Street, Legaspi Village, Makati City. MERALCO is also a domestic corporation with registered office address of Lopez Bldg. Meralco Compound, Ortigas Ave., Pasig City.

The accompanying comparative financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 6, 2018.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which are stated at fair value and pension liability which is measured at the present value of the defined benefit obligation. The financial statements are presented in Philippine Peso (₱), which is the Company's functional and currency. All amounts are rounded to the nearest Peso unless otherwise indicated.

Statement of Compliance
The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS include Philippine Financial Reporting Standards, and Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

3. Changes in Accounting Policies

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Company applied for the first time certain pronouncements, which are effective for annual periods on or after January 1, 2017. The adoption of these amendments to standards did not have any significant impact on the Company's financial statements.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of these amendments did not have any impact on the Company's financial statements.

- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  Adoption of these amendments did not have any impact on the Company's financial position, performance or disclosures as the Company does not have liabilities arising from financing activities.

- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  The Company applied the amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

- Circular Letter 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves*

  The circular prescribes the new valuation methodology for the non-life insurance companies. Non-life insurance companies will be changing the basis of valuation of their non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The incurred but not reported (IBNR) reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method.

  A margin for adverse deviation is estimated based on standard projection techniques or combination of such techniques, such as but not limited to the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the Policy Liabilities at the 75th percentile level of sufficiency. Discount rates to be used shall be current risk-free rates. The rates shall exactly match the duration of the policy and the currency of the cash flows and shall be prescribed by the Insurance Commission

<u>Standards Issued but Not Yet Adopted</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

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

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. 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 will defer the adoption pending effectivity of PFRS 17 which takes effect on 2021.

- 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.

  During 2017, the Company performed an assessment of the amendments and reached the conclusion that as of December 31, 2015, its activities are predominantly connected with insurance. The Company intends to apply the temporary exemption from PFRS 9 and will therefore continue to apply PAS 39, *Financial Instruments: Recognition and Measurement*, for its financial assets and liabilities until the Company applies the new standard on insurance contracts.

- 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 full retrospective method.

  The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Company.

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

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

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

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

Effective beginning on or after January 1, 2019

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

- PFRS 16, *Leases*

  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 re-measure 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.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

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

  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*

4. Summary of Significant Accounting Policies

Financial Instruments

Date of Recognition

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the timeframe 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 fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

Subsequent to initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets, and loans 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.

Financial Assets and Liabilities at FVPL.

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

Financial assets and liabilities are classified as held-for-trading if these are acquired for the purpose of selling and repurchasing in the near term. Derivatives are also classified under financial asset or liabilities at FVPL.

Financial assets or liabilities may be designated by management on initial recognition as “at FVPL” when any of the following criteria are met:

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

Financial assets and liabilities at FVPL are recorded in the statement of financial position at fair value. Subsequent changes in fair value are recognized in profit or loss. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

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

Cash and Cash Equivalents
Cash and cash equivalents comprise of cash balances and bank deposits with maturities of three (3) months or less from the acquisition date that are subject to an insignificant risk of changes in value.

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

The Company's investments in government and corporate debt securities are classified as HTM investments.

AFS Financial Assets
AFS financial assets are those which are designated as such or do not qualify as "at FVPL", HTM investments or loans and receivables. These may include government securities, equity investments, and debt instruments, purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in profit or loss. Interest earned on holding AFS financial assets is reported as "Interest income" in profit or loss using the effective interest rate. Dividends earned from holding AFS financial assets are recognized in profit or loss when the right to receive payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are recognized in OCI and reported as "Revaluation reserve on AFS financial assets" in the equity section of the statements of financial position. The losses arising from impairment of such investments are recognized as provision for impairment losses in profit or loss. When the AFS financial asset is disposed, the cumulative gains or losses previously recognized in equity are recognized as realized gains or losses in profit or loss.

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

The Company's equity investments are included in this category.

Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading or designated as AFS or at FVPL. This accounting policy relates to the accounts: (a) cash and cash equivalents; (b) insurance contracts receivable, which arise primarily from premiums due from policyholders, ceding companies and reinsurers; (c) accrued interest receivable and; (d) other assets excluding prepaid tax, input value added tax (VAT) and prepayments.

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

Other Financial Liabilities
Issued financial instruments or their components, which are not designated as “at FVPL” are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. These include investment contracts, which mainly transfer financial risk and have no or insignificant insurance risk.

After initial measurement, other interest financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral part of the effective interest rate.

This accounting policy applies to the Company’s accounts payable and accrued expenses excluding accrued rent and government liabilities, reinsurance liabilities, and Outstanding claims provision.

Fair Value Measurement
The Company measures financial instruments, such as financial instruments designated as “at FVPL” and AFS financial assets at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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: inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

"Day 1" Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where data which is not observable was used, the difference between the transaction price and model value is only recognized in the profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

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.

Loans and Receivables

For loans and 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 assets'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.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan is subject to variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, 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 profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increase in fair value after impairment is recognized directly in OCI and in equity.

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 OCI, the impairment loss is reversed through profit or loss.

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, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

<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 when:

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

Offsetting
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. This is not generally the case with master netting agreements, as the related assets and liabilities are presented gross in the statement of financial position.

Income and expenses are presented on a net basis only when permitted by the accounting standards.

Other Assets
Prepayments
Prepayments represent expenses not yet incurred but paid in cash. Prepayments are initially recorded as assets and measured at the amount paid in cash. They are charged to profit and loss as they are consumed in the operations. These are typically "Rental Deposits".

Creditable withholding taxes
Creditable withholding taxes represent amounts withheld by the company's counter parties in relation to the revenue earned. Subsequently, these amounts are applied against the income tax due.

Security fund
Security fund refers to the contribution of the company to the security fund- Non life insurance account as required by the Insurance Commission on all non-life insurance companies authorized to do business in the Philippines.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization and impairment losses, if any.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Company. The cost of day-to-day servicing of an asset is recognized as an expense in the period in which these are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the property and equipment other than leasehold improvements. Amortization is computed on a straight-line basis over the estimated useful life of the leasehold improvements or the term of the lease, whichever is shorter.

The estimated useful lives are as follows:

	Number of Years
Furniture, fixtures and equipment	5
Transportation equipment	5
Computer hardware and software	5
Leasehold improvements	5 or lease term, whichever is shorter

The residual values, useful lives, depreciation and amortization methods for items of property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and the related accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Accounts and other Payables
Accounts payable includes commissions payable to agents and brokers which are due upon collection of the related premiums receivable. It also pertains to unpaid purchases of goods and services to suppliers. They are due within one year.

Accrued Expenses
These represents incurred expenses but are not yet paid. They are due within one year and are derecognized upon settlement of the expense.

Taxes payable
This pertains to withholding taxes, fire services tax, local government tax and VAT. They are non-interest bearing and normally settled within 30 to 90 days.

Creditable Withholding Taxes (CWTs)
Creditable withholding pertains to the 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 end of the 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. If these CWTs are claimed as a refund, these will be recorded as a receivable under “Loans and receivables” account. At each end of the reporting period, an assessment for impairment is performed as to the recoverability of these CWTs.

Value added tax
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Insurance Payables
This represents reinsurance premiums payable by the company to all its reinsurers, recognized at transaction when the company enters into a reinsurance agreement for ceding out its insurance business.

This account in derecognized when the obligation under the liability is settled.

Impairment of Financial and Non-Financial Assets
The Company assesses at each reporting date whether a financial asset or a group of financial asset 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 will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

AFS Financial Assets Carried at Fair Value
In case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is objective evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized in OCI shall be remove from equity and recognized in profit or loss. Impairment loss on equity securities are not reversed through profit or loss. Increase in fair value after impairment is recognized directly in equity as "net change in fair value of financial assets".

AFS Financial Assets Carried at Cost
If there is an objective evidence of 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 value and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

HTM Investments
The Company assesses at each reporting date whether there is any objective evidence that its HTM investments are impaired. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

a. significant financial difficulty of the issuer or obligor;
b. breach of contract, such as a default or delinquency in interest or principal payments;
c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
d. it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

As at December 31, 2017 and 2016, no impairment loss is recognized in the Company's AFS and HTM investments.

Property and Equipment
At each reporting date, the Company assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists, the Company estimates the recoverable amount of the impaired assets. The recoverable amount is the higher of the fair value less costs to disposal and value in use. Value in use is the present value of future cash flows expected to be derived from an asset while fair value less costs of disposal is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable and willing parties less cost of disposal. 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 assessment of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset is written down to its recoverable amount.

An impairment loss is recognized in the profit or loss in the period in which it arises. There were no impairment losses of property and equipment and other non-financial assets recognized in 2017 and 2016.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If 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. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in the profit or loss. After such a reversal, the depreciation and amortization is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

<u>Insurance Contract</u>
Insurance contract is an agreement whereby one party, called the insurer, undertakes for a consideration paid by the other party, called the insured, promises to pay money, or its equivalent or to do some act valuable to the latter, upon happening of a loss, liability or disability arising from an unknown or contingent event.

Contract Classification
The Company issues short-term insurance contracts categorized as: (i) casualty; (ii) property; (iii) short-duration accident insurance, and (iv) suretyship insurance contract.

Casualty insurance contract protects the assured against the risk causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. Property insurance contract mainly compensates the Company's assured for damages suffered to their properties or for the value of property lost. Short-duration accident insurance policy protects the assured from the consequences of events such as death or disability in connection with a specific travel whether for business or pleasure. Short-duration accident insurance covers also apply to insurance of goods or equipment while being transported from point of origin to point of destination under special risks or marine cargo insurance contract. Suretyship insurance contract is not a contract of indemnity, but a contract of guarantee. It protects the Company's assured and their investments from loss when entering into a bond. This includes bid bond, performance bond, surety bond, guarantee bond, fidelity bond and judicial and heirs bond.

Underwriting
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 receivable represent the outstanding balance or premiums due from the insured or policyholders, or those premiums that were collected by agents or brokers on behalf of the Company.

Reinsurance
The Company cedes insurance risk in the normal course of business. Reinsurance assets primarily include balances due from ceding and reinsurance companies. Amounts due from reinsurers are accounted in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contracts.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amount due to it 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 to profit or loss. Ceded reinsurance arrangements do not relieve the Company from its obligation 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 as income and expense 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 reinsurers. 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 and liabilities are derecognized when the contractual right is extinguished or expired or when the contract is transferred to another party.

Reserve for Unearned Premiums and Deferred Reinsurance 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 reserve for unearned premiums in the liability section of the statements of financial position. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. "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. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

The related reinsurance premiums ceded that pertains to the unexpired periods at end of the reporting period are accounted for as "Deferred Reinsurance Premiums" and shown in the liabilities section in the statement of financial position. The net changes in reinsurance premiums reserve between each end of reporting period are recognized as part of "Gross change in provision for unearned premiums" account in profit or loss.

Commission Expense and 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 24^{th} method over the life of the contract. Amortization is charged to profit or loss. The unamortized acquisition costs are shown as "Deferred acquisition costs" (DAC) 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.

Commission Income and Deferred Reinsurance Commission
Commissions earned from reinsurance contracts are recognized as revenue over the period of the contracts using the 24^{th}method.The portion of the commissions that relate to the unexpired periods of

the policies at end of the reporting period are accounted for as “Deferred reinsurance commission” in the statement of financial position. The net changes in deferred reinsurance commission between each end of reporting period are recognized as “Commission income” in profit or loss.

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

Benefits and Claims
These liabilities are based on the estimated ultimate cost of all claims incurred but not reported (IBNR) at the end of the reporting period together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The IBNR shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, the expected loss ratio approach, and the Bornhuetter - Ferguson method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision.

Liability Adequacy Test
At each reporting date, liability adequacy test is performed to ensure the adequacy of the insurance liabilities. The test considers current best estimates of all contractual cash flows, claims and claims handling cost. If the test shows that the liability is inadequate, the entire deficiency is recognized in profit or loss.

Claim Cost Recognition
Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when the insured events occur.

An insurance contract remains in force at the inception date of policy until its maturity or expiry regardless of the number of the claims reported and, for as long as the coverage is sufficient.

<u>Contributed Surplus</u>
This represents contributions from stockholders to cover up any deficiency in the net worth requirement.

<u>Equity</u>
Capital stock is recognized at the par value of stocks that have been issued.

<u>Revenue Recognition</u>
Revenue is recognized when the significant risks and rewards of ownership have been transferred or the services have been rendered to the customer, the amount of revenue can be measured reliably and it is probable that the economic benefits will flow to the Company. Revenue is measured at the fair value of the consideration received, or receivable.

<u>Other Income</u>
Interest Income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets, interest income is calculated using the effective interest method.

Interest income from cash in banks, loans and receivables, funds held by ceding companies and dividend income, which is subject to final withholding tax, is presented at net amounts.

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

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

Other Income
Other income is recognized when earned.

Expenses Recognition
Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably.

Operating Expenses
Operating expenses are recognized when incurred.

Operating Lease
Lease in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Pension Liability
The Company's net obligation in respect of the defined benefit plans is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss.

The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Short-term Employee Benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to

pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination Benefits
Termination benefits are charge to expense at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for restructuring. If benefits are not expected to be settled wholly within 12 months from the end of the reporting period, then they are discounted.

Income Taxes
Income tax on the profit or loss for the year comprises current and deferred income tax. Current and deferred income tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Current Income Tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute this amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Income Taxes
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carry forward 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 future taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax asset to be utilized. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or 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 profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 as at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Provisions
Provisions are recognized only when the Company has: (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

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

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

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

5. Significant Accounting Judgments and Estimates

The preparation of financial statements in conformity with PFRS necessitates the use of judgments, estimates and assumptions that affect the application of policies and reported amount of assets, liabilities, and contingent liabilities at the reporting date as well as the reported income and expense for the year. The following are the critical judgments, key estimates and assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year and/or in future periods:

Judgments

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

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

(b) *Determining whether an Arrangement Contains a Lease*
At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Company's incremental borrowing rate.

(c) *Determination of Lease Agreements*
Company as Lessee
The Company has a lease agreement covering its office spaces and parking slots. Based on the evaluation of the terms and conditions of the lease agreement, the Company has determined that all significant risks and rewards of ownership of the properties it leases are retained by the lessor.

Rent expense charged to operations in 2017 and 2016 amounted to ₱6.6 million and ₱6.9 million, respectively (see Notes 20 and 22).

(d) Classification of Financial Instruments
The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

In addition, the Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis.

<u>Estimates</u>

(a) Claims Liability Arising from Insurance Contracts
For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the claims provision. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision. As of December 31, 2017 and 2016, provision for IBNR claims amounted to ₱22.1 million and ₱31.0 million, respectively (see Note 13).

IBNR 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 of December 31, 2017 and 2016, gross carrying amount of insurance liabilities arising from insurance contracts amounted to ₱606.0 million and ₱489.7 million, respectively (see Note 13).

(b) *Impairment of Financial Assets*
The Company determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged decline requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than twelve (12) months. In addition, the Company evaluates other factors, including the normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, the industry and sector performance, like changes in technology, and operational and financing cash flows.

As at December 31, 2017 and 2016, there is no impairment loss recognized on the Company's AFS and HTM investments.

The Company reviews its receivables to assess impairment at least on an annual basis, or as the need arises, depending on the volume and nature of transactions. Receivables from policyholders and reinsurers that are individually significant are assessed to determine whether objective evidence of impairment exists on an individual basis, while those that are not individually significant are assessed for objective evidence of impairment either on an individual or on collective basis. In determining whether an impairment loss should be recorded in profit or loss, the Company uses judgment to determine if there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the receivables when scheduling its future cash flows. The Company manages the level of credit risk it accepts through a comprehensive credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company; setting up of exposure limits by each counterparty or group of counterparties; right of offset where counterparties are both debtors and creditors; reporting of credit risk exposures.

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 methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of insurance receivables as of December 31, 2017 and 2016 amounted to ₱176.7 million and ₱158.8 million, respectively. The Company has recognized allowance for impairment loss on its insurance receivables amounting to ₱0.4 million as of December 31, 2017 and 2016 (see Note 20).

(c) *Estimated Useful Lives of Property and Equipment*
The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts. There was no change in estimated useful lives in 2017 and 2016.

As of December 31, 2017 and 2016, property and equipment, net of accumulated depreciation and amortization, amounted to ₱6.0 million and ₱9.3 million, respectively (see Note 11).

(d) *Estimation of Retirement Benefit Cost*
The determination of the Company's obligation and benefit cost and other retirement benefits is dependent on management's selection of certain assumptions used by actuaries in calculating such amounts.

The assumptions for benefit costs and other retirement benefits are described in Note 23 to the financial statements and include among others, discount rates and rates of compensation increase. In accordance with PFRS, actual results that differ from assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the Company's retirement benefit costs.

As of December 31, 2017 and 2016, pension liability amounted to ₱24.3 million and ₱16.2 million, respectively (see Note 23). Retirement benefit costs amounted to ₱8.7 million and ₱2.3 million in 2017 and 2016, respectively (see Note 23).

(e) *Realizability of Deferred Tax Assets*
The Company reviews the carrying amounts of deferred income tax assets at the end of each reporting period and reduces these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting periods. This forecast is based on the past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of the recorded deferred income tax assets to be utilized.

As of December 31, 2017 and 2016, deferred tax assets amounted to ₱13.6 million and ₱15.0 million respectively (see Note 21).

(f) *Contingencies*
The Company is currently involved in a legal proceeding which could be decided in favor of or against the Company. The Company's estimate of the probable costs for the resolution of claims have been developed in consultation and with the aid of legal counsels handling the Company's defense in this matter and based upon an analysis of potential results. Management does not believe that the outcome of these proceedings will have a material adverse effect on the Company's financial position.

6. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱432,402**	₱477,906
Cash in banks	**536,180,967**	150,444,497
Cash equivalents	**25,493,186**	101,127,017
	₱562,106,555	₱252,049,420

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents represent short-term deposits that are made for varying periods up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term investment rates. Interest income earned on these deposits amounted to ₱1.60 million and ₱2.04 million in 2017 and 2016, respectively (see Note 18).

7. Insurance Receivables

This account consists of:

	2017	**2016**
Reinsurance recoverable on paid losses (Note 24)	**₱88,866,437**	₱53,976,108
Premiums receivable (Note 24)	**47,276,962**	31,541,762
Premiums due from ceding companies	**38,537,824**	71,248,976
Funds held by ceding companies	**2,420,023**	2,420,023
	177,101,246	159,186,869
Less allowance for impairment losses	**433,879**	433,879
	₱176,667,367	₱158,752,990

Premiums receivable arise from unpaid premiums from policyholders and intermediaries.

Reinsurance recoverable on paid losses is the share of reinsurance companies for the claims paid to the insured by the Company.

Premiums due from ceding companies are premiums receivable for assumed business from other insurance and reinsurance companies.

Funds held by ceding companies pertain to a certain percentage of the total reinsurance premiums due within one year from date of retention being held by ceding companies.

In 2016, management recorded allowance for impairment losses of ₱433,879 based on specific assessment of individually impaired insurance receivables. No collective assessment was made in evaluating the possible impairment of insurance receivables (see Note 20).

8. Reinsurance Assets

This account consists of:

	2017	2016
Reinsurance recoverable on unpaid losses (Note 13)	**₱246,170,891**	₱110,394,894
Deferred reinsurance premiums (Note 13)	**77,083,150**	97,742,461
	₱323,254,041	₱208,137,355

9. **Financial Assets**

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

	2017	2016
Held-to-maturity (HTM) financial assets	**₱162,455,202**	₱138,677,004
Available-for-sale (AFS) financial assets	**540,704**	437,648
Loans and receivables	**2,254,760**	2,746,290
	₱165,250,666	₱141,860,942

The Company's categories of investments are as follows:

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

	2017	2016
Government securities		
Carrying value	**₱149,155,202**	₱105,377,004
Coupon rate	**1.7% to 6.4%**	1.7% to 6.4%
Corporate securities		
Carrying value	**₱13,300,000**	₱33,300,000
Coupon rate	**3.9%-5.8%**	3.9%-5.8%

As at December 31, 2017 and 2016, government securities amounting to ₱149.16 million and ₱105.3 million, respectively, held by the Registry of Scripless Securities (RoSS) are earmarked as non-tradable in accordance with the provision of the Insurance Code as security for the benefit of policyholders and creditors of the Company. Interest income earned in HTM investments amounted to ₱5.43 million and ₱5.0 million in 2017 and 2016, respectively (see Note 18).

The outstanding HTM investments will mature starting May 23, 2018 to August 15, 2023.

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

	2017	2016
Quoted equity securities – at fair value	**₱520,704**	₱417,648
Unquoted equity securities – at cost	**20,000**	20,000
Total AFS financial assets recognized in the statements of financial position	**₱540,704**	₱437,648

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

	2017	2016
Quoted equity securities	**₱1,119,405**	₱1,119,405
Unquoted equity securities	**20,000**	20,000
Total AFS financial assets at cost	**₱1,139,405**	₱1,139,405

As of December 31, 2017 and 2016, the "Revaluation reserve on AFS financial assets" recorded in equity amounted to ₱0.60 million and ₱0.70 million, respectively. The movements in this account follow:

	2017	2016
Balance at beginning of the year	**(₱701,757)**	(₱609,549)
Revaluation reserve recognized in OCI	**103,056**	(92,208)
Balance at end of the year	**(₱598,701)**	(₱701,757)

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

	HTM	AFS
At December 31, 2015	₱116,481,090	₱529,856
Additions	75,688,127	–
Disposals/maturities	(53,022,523)	–
Amortization	(469,690)	
Fair value loss recognized in OCI	–	(92,208)
At December 31, 2016	**138,677,004**	**437,648**
Additions	**56,904,471**	**–**
Disposals/maturities	**(33,538,500)**	**–**
Amortization	**412,227**	
Fair value gain recognized in OCI	**–**	**103,056**
At December 31, 2017	**₱162,455,202**	**₱540,704**

Loans and Receivables
This account consist of:

	2017	2016
Employee receivables	**₱1,391,668**	₱1,917,907
Interest receivables	**730,438**	822,695
Other receivables	**132,654**	5,688
	₱2,254,760	₱2,746,290

Employee receivables pertain to car loans granted to employees.

Interest receivables are mainly interest accrued arising from cash equivalents, investment in government securities and corporate bonds.

Other receivables pertains to 2% taxes withheld from cedants' commissions.

10. Deferred Acquisition Costs and Deferred Reinsurance Commissions

The rollforward analyses of these accounts follow:

Deferred acquisition costs

	2017	2016
At January 1	**₱23,292,396**	₱18,616,795
Costs deferred during the year	**40,874,236**	61,278,817
Costs incurred during the year	**(47,501,920)**	(56,603,216)
At December 31	**₱16,664,712**	₱23,292,396

Deferred reinsurance commissions

	2017	2016
At January 1	**₱12,824,859**	₱6,272,134
Commissions deferred during the year	**21,389,449**	28,844,994
Commissions earned during the year	**(24,551,808)**	(22,292,269)
At December 31	**₱9,662,500**	₱12,824,859

11. **Property and Equipment**

The rollforward analysis of property and equipment follows:

	2017				
	Furniture, Fixtures and Equipment	**Transportation Equipment**	**Computer Hardware and Software**	**Leasehold Improvements**	**Total**
Cost					
At January 1	**₱4,247,304**	**₱6,260,815**	**₱15,223,118**	**₱9,381,283**	**₱35,112,520**
Additions	**20,015**	**1,195,536**	**12,714**	**–**	**1,228,265**
Disposals	**(65,449)**	**(1,000,000)**	**(791,715)**	**–**	**(1,857,164)**
at December 31	**4,201,870**	**6,456,351**	**14,444,117**	**9,381,283**	**34,483,621**
Accumulated Depreciation and Amortization					
at January 1	**3,749,932**	**2,106,633**	**11,223,802**	**8,758,933**	**25,839,300**
Depreciation and amortization for the year (Note 20)	**286,363**	**1,279,790**	**2,163,291**	**352,792**	**4,082,236**
Disposals	**(65,448)**	**(799,999)**	**(591,094)**	**–**	**(1,456,541)**
Balances as at December 31	**3,970,847**	**2,586,424**	**12,795,999**	**9,111,725**	**28,464,995**
Net book Value	**₱231,023**	**₱3,869,927**	**₱1,648,118**	**₱269,558**	**₱6,018,626**

	2016				
	Furniture, Fixtures and Equipment	Transportation Equipment	Computer Hardware and Software	Leasehold Improvements	Total
Cost					
at January 1	₱4,278,098	₱6,362,873	₱15,501,854	₱9,381,283	₱35,524,108
Additions	–	1,556,049	205,536	–	1,761,585
Disposals	(30,794)	(1,658,107)	(484,272)	–	(2,173,173)
Balances as at December 31	4,247,304	6,260,815	15,223,118	9,381,283	35,112,520
Accumulated Depreciation and Amortization					
at January 1	3,489,372	1,978,532	8,958,227	8,406,141	22,832,272
Depreciation and amortization for the year (Note 20)	291,350	1,166,911	2,743,746	352,792	4,554,799
Disposals	(30,790)	(1,038,810)	(478,171)	–	(1,547,771)
Balances as at December 31	3,749,932	2,106,633	11,223,802	8,758,933	25,839,300
Net book value	₱497,372	₱4,154,182	₱3,999,316	₱622,350	₱9,273,220

Disposals made resulted to a loss on sale amounted to ₱0.10 million and ₱0.29 million in year 2017 and 2016, respectively.

The total cost of the Company's fully depreciated property and equipment still in use amounted to ₱20.62 million and ₱13.47 million in 2017 and 2016, respectively.

12. Other Assets

This account consists of:

	2017	2016
Creditable withholding taxes	**₱36,005,023**	₱27,957,899
Rental deposits	**3,139,665**	2,992,074
Prepayments	**139,380**	333,155
Security fund	**48,439**	32,315
	₱39,332,507	₱31,315,443

Creditable withholding taxes (CWTs) represent tax withheld by customers from the revenue earned by the Company which can be applied as tax credits against future tax payable.

Rental deposits pertain to refundable deposits made by the Company under its lease agreements.

Prepayments pertain to cash paid in advance by the Company in relation to its license fees and communication expenses.

Security fund pertains to the contribution of the Company to the security fund account as required by the Insurance Commission on all insurance companies authorized to do business in the Philippines.

13. Insurance Contract Liabilities

Insurance contract liabilities are analyzed as follow:

	2017			2016		
	Insurance Contract Liabilities (Note 24)	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Insurance Contract Liabilities (Note 24)	Reinsurers' Share of Liabilities (Note 8)	Net
Provision for claims reported	**₱424,561,042**	**₱246,170,891**	**₱178,390,151**	₱255,567,797	₱110,394,894	₱145,172,903
Provision for IBNR (Note 28)	**22,053,900**	**–**	**22,053,900**	31,010,690	–	31,010,690
Outstanding claims provision	**446,614,942**	**246,170,891**	**200,444,051**	286,578,487	110,394,894	176,183,593
Provision for unearned premiums	**159,354,175**	**77,083,150**	**82,271,025**	203,107,713	97,742,461	105,365,252
Insurance contract liabilities	**₱605,969,117**	**₱323,254,041**	**₱282,715,076**	₱489,686,200	₱208,137,355	₱281,548,845

The movements of outstanding claims provision follow:

	2017			2016		
	Insurance Contract Liabilities (Note 24)	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Insurance Contract Liabilities (Note 24)	Reinsurers' Share of Liabilities (Note 8)	Net
At January 1	**₱286,578,487**	**₱110,394,894**	**₱176,183,593**	₱233,394,569	₱137,890,196	₱95,504,373
Claims incurred during the year	**346,999,575**	**235,789,652**	**111,209,923**	153,855,287	34,866,963	118,988,324
Claims paid (Note 19)	**(178,006,330)**	**(100,013,655)**	**(77,992,675)**	(115,377,426)	(62,362,265)	(53,015,161)
Increase (decrease) in IBNR (Note 19)	**(8,956,790)**	**–**	**(8,956,790)**	14,706,057	–	14,706,057
At December 31	**₱446,614,942**	**₱246,170,891**	**₱200,444,051**	₱286,578,487	₱110,394,894	₱176,183,593

The movements of provision for unearned premiums follow:

	2017			2016		
	Provision for Unearned Premiums	**Reinsurers' Share of Liabilities** (Note 8)	**Net**	Provision for Unearned Premiums	Reinsurers' Share of Liabilities (Note 8)	Net
At January 1	**₱203,107,713**	**₱97,742,461**	**₱105,365,252**	₱163,381,375	₱63,572,972	₱99,808,403
Premiums written in the year (Note 17)	**546,073,860**	**488,251,264**	**57,822,596**	682,450,672	546,429,514	136,021,158
Premiums earned during the year (Note 17)	**(589,827,398)**	**(508,910,575)**	**(80,916,823)**	(642,724,334)	(512,260,025)	(130,464,309)
At December 31	**₱159,354,175**	**₱77,083,150**	**₱82,271,025**	₱ 203,107,713	₱97,742,461	₱105,365,252

14. Insurance Payables

This account consists of:

	2017	2016
Premiums due to reinsurers (Note 24)	**₱214,536,868**	₱186,841,613
Funds held for reinsurers	**16,213**	254,761
	₱214,553,081	₱187,096,374

The movements of insurance payables follow:

	Premiums due to reinsurers	**Funds held for reinsurers**	**Total**
At January 1, 2016	₱141,194,913	₱277,955	₱141,472,868
Arising during the year	546,429,514	110,274	546,539,788
Paid/utilized	(500,782,814)	(133,468)	(500,916,282)
At December 31, 2016	**₱186,841,613**	**₱254,761**	**₱187,096,374**
Arising during the year	**488,251,264**	**9,352**	**488,260,616**
Paid/utilized	**(460,556,009)**	**(247,900)**	**(460,803,909)**
At December 31, 2017	**₱214,536,868**	**₱16,213**	**₱214,553,081**

15. Accounts and Other Payables

This account consists of:

	2017	2016
Commission payable	**₱11,114,175**	₱9,631,174
Taxes payable	**11,250,756**	21,233,665
Accounts payable	**7,230,134**	15,887,627
Employee benefits payable	**3,919,735**	266,346
	₱33,514,800	₱47,018,812

Commission payable represents unpaid commissions on the Company's direct business, payable to ordinary agents, general agents and insurance brokers.

Taxes payable pertains to output VAT, withholding taxes payable, fire service tax payable, documentary stamp tax (DST) payable, and other taxes and licenses payable.

Employee benefits payable includes SSS contributions and salary loans payable, Philhealth contribution payable, Home Development Mutual Fund (HDMF) contributions and loans payable, and sick and vacation leaves accruals.

Accounts payable consists of unreleased checks, provision for expenses, and accrued rentals.

16. Equity

Capital Stock

The movements of the Company's capital stock follow:

	2017		2016	
	Shares	**Amount**	Shares	Amount
Authorized:				
Common - ₱100 par value	**6,000,000**	**₱600,000,000**	6,000,000	₱600,000,000
Issued and outstanding:				
At January 1	**2,500,000**	**₱250,000,000**	2,500,000	₱250,000,000
Issuance of shares	**3,150,000**	**315,000,000**	–	–
At December 31	**5,650,000**	**₱565,000,000**	2,500,000	₱250,000,000

On December 22, 2017, capital contributions were made by MERALCO and PISC amounting to ₱177.89 million and ₱288.15 million, respectively. The amounts represent the following:

a.) MERALCO's payment of outstanding subscription amounting to ₱25.00 million divided into 250,000 shares at ₱100 par value per share
b.) MERALCO's additional subscription amounting to ₱1.85 million divided into 18,500 shares at ₱100 par value per share.
c.) MERALCO's additional cash infusion booked as contributed surplus and amounting to ₱151.04 million.
d.) PISC's subscription amounting to ₱288.15 million and divided into 2,881,500 shares as ₱100 par value.

17. Net Insurance Revenue

The analysis of net insurance revenue as follow:

	2017	2016	2015
Gross premiums on insurance contracts:			
Direct insurance	**₱443,834,271**	₱472,322,215	₱451,406,034
Assumed reinsurance	**102,239,589**	210,128,457	170,887,603
Total gross premiums on insurance contracts (Note 13)	**546,073,860**	682,450,672	622,293,637
Gross change in unearned premium provision	**43,753,538**	(39,726,338)	(8,139,920)
Total gross earned premiums on insurance contracts (Note 13)	**589,827,398**	642,724,334	614,153,717
Reinsurers' share of gross premiums on			
Direct insurance	**388,129,660**	387,191,059	329,478,057
Assumed reinsurance	**100,121,604**	159,238,455	132,633,584
Total reinsurer's share on gross premiums (Note 13)	**488,251,264**	546,429,514	462,111,641
Reinsurers' share of gross change in provision for unearned premiums (Note 13)	**20,659,311**	(34,169,489)	(46,863,723)
Total reinsurers' share of gross earned premiums on insurance contracts (Note 13)	**508,910,575**	512,260,025	508,975,364
Net earned insurance premiums (Note 13)	**₱80,916,823**	₱130,464,309	₱105,178,353

18. Interest and Other Income

Interest income consists of:

	2017	2016	2015
Interest income on:			
HTM financial assets (Note 9)	**₱5,433,604**	₱5,001,337	₱5,938,232
Cash and cash equivalents (Note 6)	**1,601,765**	2,042,110	1,745,312
	₱7,035,369	₱7,043,447	₱7,683,544

Other income - net consists of:

	2017	2016	2015
Realized foreign exchange gain	**₱1,311,095**	₱1,061,733	₱792,644
Unrealized foreign exchange gain (loss)	**(354,304)**	196,176	276,739
Others	**159,125**	17,804	256,599
	₱1,115,916	₱1,275,713	₱1,325,982

19. Net Insurance Benefits and Claims

This account consists of:

	2017	2016	2015
Gross benefits and claims paid on insurance contracts	**₱178,006,330**	₱115,377,426	₱186,453,510
Reinsurers' share of general insurance contract benefits and claims paid on insurance contracts	**(100,013,655)**	(62,362,265)	(128,244,105)
Net benefits and claims paid (Note 13)	**77,992,675**	53,015,161	58,209,405
Gross change in outstanding claims provisions:			
Direct insurance	**168,993,245**	38,477,861	(402,280,232)
Change in provision for IBNR	**(8,956,790)**	14,706,057	14,304,633
Total gross change in insurance contract liabilities (Note 13)	**160,036,455**	53,183,918	(387,975,599)
Total reinsurers' share of gross change in insurance contract liabilities	**(135,775,997)**	27,495,300	397,452,086
Net change in insurance contract liabilities	**24,260,458**	80,679,218	9,476,487
Net insurance benefits and claims	**₱102,253,133**	₱133,694,379	₱67,685,892

20. Operating Expenses

Operating expenses consist of:

	2017	2016	2015
Salaries, allowances and employee benefits	**₱52,168,125**	₱49,850,240	₱50,866,442
Retirement expense (Note 23)	**9,325,987**	2,934,165	2,783,308
Rent (Notes 22 and 24)	**6,592,999**	6,909,244	6,473,354
Professional fees	**4,756,049**	7,383,529	3,558,123
Depreciation and amortization (Note 11)	**4,082,236**	4,554,799	4,479,430

(Forward)

	2017	2016	2015
Repairs and maintenance	**₱3,441,067**	₱3,291,316	₱3,496,964
Taxes and licenses	**3,226,606**	1,138,183	854,036
Transportation and travel	**1,771,552**	1,246,943	2,066,503
Communication and postage	**1,157,656**	1,195,091	1,333,601
Entertainment, amusement and recreation	**1,077,135**	2,003,025	1,735,796
Utilities (Note 24)	**1,011,963**	1,028,820	966,736
Advertising and promotion	**928,761**	1,246,963	1,112,660
Supplies	**400,334**	454,332	659,542
Professional development	**320,997**	363,436	2,578,145
Association dues and regulatory fees	**315,913**	599,249	573,080
Provision for impairment losses on premiums receivable (Note 7)	**–**	433,879	–
Others	**1,178,053**	1,054,900	1,219,760
	₱91,755,433	₱85,688,114	₱84,757,480

Other expenses include insurance expenses, bank charges, books and periodicals, inspection expense, internal conference and loss on disposal expenses.

21. Income Tax

Income tax expense (benefit) consists of:

	2017	2016
Final	**₱1,405,022**	₱1,406,016
Deferred	**630,607**	(4,888,086)
	₱2,035,629	(₱3,482,070)

The reconciliation of income tax (benefit) expense computed at statutory tax rate to the income tax expense shown in profit or loss follows:

	2017	2016
Income tax computed at statutory tax rate	**(₱40,957,531)**	(₱36,738,225)
Tax effects of:		
Interest income subjected to final tax	**(705,588)**	(707,018)
Dividend income	**–**	(4,275)
Nondeductible expenses	**2,164,380**	4,495,661
Change in unrecognized deferred tax assets	**41,534,368**	29,471,787
	₱2,035,629	(₱3,482,070)

The components of deferred tax assets - net are as follows:

	2017	2016
Presented in profit or loss		
Deferred tax assets on:		
Retirement liability	**₱6,874,414**	₱4,076,618
NOLCO	**4,522,373**	7,074,709
Excess of MCIT over RCIT	**944,816**	1,940,435
Accrued operating lease	**194,295**	239,886
Allowance for impairment losses	**130,164**	130,164
Unrealized foreign exchange loss	**106,291**	–
	12,772,353	13,461,812
Deferred tax liability on unrealized foreign exchange gain	–	(58,852)
	12,772,353	13,402,960
Presented in other comprehensive income		
Deferred tax asset on actuarial loss on defined benefit plan	**419,605**	788,626
	₱13,191,958	₱14,191,586

The future tax benefit on deferred income tax assets are expected to be realized primarily upon realization of excess of recorded reserve for unearned premiums and deferrals of commissions over tax basis.

The movements of deferred tax assets are accounted for as follows:

	2017	2016
Amount charged to profit or loss	**(₱630,607)**	₱4,888,086
Amount charged to other comprehensive income relating to re measurement of retirement liability	**(369,021)**	(166,770)
Increase (decrease) in deferred tax assets	**(₱999,628)**	₱4,721,316

As at December 31, 2017, the details of unexpired excess of MCIT over RCIT, which may be claimed as deduction against income tax due are as follow:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Date
2015	₱944,816	₱–	₱–	₱944,816	December 31, 2018
2014	995,619	–	995,619	–	December 31, 2017

Details of the Company's NOLCO as at December 31, 2017 which are available for offset against future taxable income are as follow:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Date
2017	₱139,820,504	₱–	₱–	₱139,820,504	December 31, 2020
2016	112,414,034	–	–	112,414,035	December 31, 2019
2015	74,531,886	–	–	74,531,886	December 31, 2018
2014	9,737,860	–	9,737,860	–	December 31, 2017
2013	17,251,489	–	17,251,489	–	December 31, 2016

Details of the Company's unrecognized and recognized DTA on NOLCO are as follow:

	2017	2016
NOLCO	**₱326,766,425**	₱196,683,781
Less unrecognized temporary difference on NOLCO	**311,691,848**	173,101,418
Recognized temporary difference on NOLCO	**₱15,074,577**	₱23,582,363

Management will avail of the NOLCO when the future taxable profit is sufficient for the tax benefit to be availed against.

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

22. **Lease Commitments**

The Company has lease contracts covering its office spaces and parking slots. The lease agreements for the office spaces has a term of five (5) years beginning October 16, 2014 and June 1, 2013. The lease agreement for the additional parking slots has a term of three (3) years effective July 1, 2016. Rental is based on a pre-agreed monthly rate on the first year with a five percent (5%) escalation rate beginning on the second year of the contracts.

Future minimum annual lease commitments as at December 31, 2017 and 2016 are as follows:

	2017	2016
Not later than one year	**₱5,027,597**	₱5,870,035
Later than one year but not later than five years	**3,313,251**	8,340,849
	₱8,340,848	₱14,210,884

Rent expense for the office spaces and parking slots presented under “Operating expenses” amounted to ₱6.6 million and ₱6.9 million for the years ended December 31, 2017 and 2016, respectively (see Note 20).

23. **Pension Liability**

The Company accrues the minimum retirement benefit provided under Republic Act (R.A.) No. 7641 or the “Retirement Pay Law.”

Retirement benefits cost has been determined based on the computation by an independent actuary using the projected unit credit actuarial cost method. Under this method, retirement benefits cost includes current service cost, interest cost and the amount recognized in the current period related to past service cost. Under this calculation, the normal retirement age is 60 years with the completion of at least five (5) years of service. Normal retirement benefit is equivalent to one month final salary of employee as at the date of retirement multiplied by years of service.

As at December 31, 2017 and 2016, retirement liability shown in the statements of financial position consists of the present value of net defined benefit obligation.

Changes in the present value of the defined benefit obligation for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
At January 1	**₱16,217,479**	₱15,129,448
Current service cost	**2,231,736**	2,328,890
Interest cost	**674,889**	605,275
Benefits paid	**–**	(1,290,234)
Actuarial gain/loss on obligation recognized in OCI:		
Experience adjustment	**(1,230,071)**	196,699
Change in financial assumptions	**–**	(504,727)
Change in demographic assumptions	**–**	(247,872)
Effect of curtailment	**6,419,362**	–
At December 31	**₱24,313,395**	₱16,217,479

In 2017, the Company implemented a separation program for separated employees on January 31, 2018. The effect is recognized as an effect of curtailment that is recognized as of December 31, 2017.

The details of accumulated remeasurement loss on defined benefit obligation follows:

	2017	2016
At January 1	**(₱2,628,755)**	(₱3,184,655)
Actuarial gain on defined benefit obligation	**1,230,071**	555,900
	(1,398,684)	(2,628,755)
Tax effect	**419,605**	788,626
At December 31	**(₱979,079)**	(₱1,840,129)

Retirement expense recognized in profit or loss follows (see Note 20):

	2017	2016
Current service cost	**₱2,231,736**	₱2,328,890
Curtailment loss	**6,419,362**	–
Interest cost	**674,889**	605,275
	₱9,325,987	₱2,934,165

The components of retirement benefits recognized in OCI pertain to actuarial gain due to decrease in defined benefit obligation amounting to ₱1.2 million and ₱0.6 million in 2017 and 2016, respectively.

The principal actuarial assumptions used to determine retirement benefit cost for the Company as at December 31, are shown below:

	2017	2016
Discount rate	**6.55%**	5.47%
Salary increase rate	**5.00%**	5.00%
Mortality rate	**2017 PICM**	1994 GAM
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	1952 Disability Study, Period 2, Benefit 5

Sensitivity Analysis
Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, with all other assumptions constant, would have affected the retirement liability of the Company by the amounts shown below:

	Changes in Variables	Impact on present value of defined benefit obligation 2017	2016
Discount Rate	+ 1.00%	**(₱17,090,235)**	(₱15,325,963)
	– 1.00%	**18,839,748**	17,278,930
Salary increase rate	+ 1.00%	**(₱18,911,814)**	(₱17,327,823)
	-1.00%	**17,013,881**	15,268,375

Maturity analysis of the benefit payments:

Plan Year	**2017**	2016
Less than one year	**₱10,149,567**	₱7,758,961
One to less than five years	**6,666,564**	7,897,773
Five to less than 10 years	**4,546,268**	4,850,884
10 to less than 15 years	**2,909,543**	2,983,790
15 to less than 20 years	**8,235,232**	7,287,205
20 years and above	**39,622,365**	41,534,678

The weighted average duration of the defined benefit obligation is 10 years as at December 31, 2017 and 2016.

The defined benefit obligation exposes the Company to actuarial risks, such as longevity risks and interest risks.

Funding Arrangements
The Company does not have a formal retirement plan, thus benefit claims under the retirement obligation are paid directly by the Company when they become due.

Asset-Liability Matching
The Company does not have a formal retirement plan and therefore has no plan assets to match against the liabilities under the retirement obligation.

24. **Related Party Transactions**

Related Party Transactions and Relationships
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

Related party transactions are as follows:

Category/Transaction	Year	Amount of the Transaction	Outstanding Balance: Due from Related Parties*	Outstanding Balance: Due to Related Parties**	Terms	Conditions
MERALCO						
Premiums receivable (Note 7)	**2017**	**₱285,198,784**	**₱2,418,802**	**₱–**	**On demand; non-interest bearing**	**Unsecured; no impairment**
	2016	₱310,940,709	₱2,891,643	₱–	-do-	-do-
Insurance contract liabilities (Note 13)	**2017**	**52,388,404**	**–**	**6,440,405**	**-do-**	**Unsecured**
	2016	18,413,860	–	6,440,405	-do-	-do-
Utilities (Note 20)	**2017**	**947,557**	**–**	**–**	**-do-**	**-do-**
	2016	580,984	–	–	-do-	-do-
PISC						
Reinsurance receivables (Note 7)	**2017**	**4,431,827**	**1,631,790**	**–**	**On demand; non-interest bearing**	**Unsecured; no impairment**
	2016	–	–	–	-do-	-do-
Due to reinsurance payables (Note 14)	**2017**	**1,323,415**	**–**	**10,567,956**	**-do-**	**Unsecured**
	2016	–	–	–	-do-	-do-
Entities under Common Control						
Premiums receivable (Note 7)	**2017**	**108,233,880**	**28,173,375**	**–**	**On demand; non-interest bearing**	**Unsecured; no impairment**
	2016	105,043,726	17,798,758	–	-do-	-do-
Reinsurance receivables (Note 7)	**2017**	**14,274,505**	**–**	**–**	**-do-**	**Unsecured**
	2016	1,173,617	–	1,173,617	-do-	-do-
Insurance contract liabilities (Note 13)	**2017**	**27,054,806**	**–**	**6,274,657**	**-do-**	**-do-**
	2016	31,723,144	–	11,546,534	-do-	-do-
Rent (Note 20)	**2017**	**5,874,054**	**–**	**–**	**Renewable; non-interest bearing**	**Secured, no impairment**
	2016	6,409,130	–	–	-do-	-do-
TOTAL	**2017**		**₱32,223,967**	**₱23,283,018**		
TOTAL	2016		₱20,690,400	₱19,160,556		

** Included as part of "Insurance contracts receivable - net"*
***Outstanding balances from cessions and losses are included as part of "Reinsurance liabilities" and "Outstanding claims provision", respectively.*

Premiums relate to one (1) year insurance policies issued to MERALCO and other related entities under common control to cover certain assets.

In the ordinary course of business, the Company enters into transactions with its stockholders and affiliates. Under the Company's policy, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. Related party transactions are settled in cash.

Affiliates are other companies linked indirectly to the Company through interlocking directorship or officership and those under common significant influence and common control.

Compensation of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director, whether executive or otherwise, of that entity. The amounts reflected below are included in "Salaries, allowances and employee benefits."

The key management personnel received short-term compensation amounting to ₱20.0 million and ₱19.7 million in 2017 and 2016, respectively. Post-employment benefits recognized for the Company's key management personnel amounted to ₱1.4 million and ₱1.7 million in 2017 and 2016, respectively.

25. **Regulatory Requirements**

Fixed Capitalization Requirements
The IC issued Circular Letter (CL) No. 2015-02-A to clarify the minimum capitalization and net worth requirements of new and existing insurance companies in the Philippines. According to the said CL, every insurance company doing business in the Philippines needs to comply with the following net worth requirements:

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

To comply with the requirement of IC, on December 22, 2017 the Company received additional capital contribution amounting to ₱466.04 million from MERALCO and PISC (see Note 16).

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

Risk Based Capital Requirements
For purposes of the December 31, 2017 and 2016 financial reporting, the Company determined its compliance with the RBC requirements of the IC based on the provisions of CL No. 2016-68 and IMC No. 7-2006, respectively. These circulars provide RBC frameworks for nonlife insurance companies in order to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every nonlife insurance company is annually required to maintain a minimum required RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the nonlife insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio is calculated as net worth divided by the RBC requirement. Net worth shall include an insurance company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the IC.

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

Net worth	₱171,418,308
RBC requirement	107,854,405
RBC Ratio	159%

The final RBC ratio is determined only after the accounts of the Company have been examined by the IC, specifically as to admitted and non-admitted assets as defined under the Insurance Code. The net worth of the Company after IC's audit for the year ended December 31, 2016 amounted to ₱172,071,925.

Pursuant to IC CL No. 2017-15, *Regulatory Requirements and Actions for the New Regulatory Framework*, effective January 1, 2017, nonlife insurance companies are required to maintain minimum RBC2 requirement as prescribed under IC CL No. 2016-68. Under the RBC2 Framework, the RBC ratio shall be calculated as total available capital divided by the RBC2 requirement.

The following table shows the estimated RBC ratio as of December 31, 2017 as determined by the Company based on the RBC2 Framework:

Total available Capital	₱392,481,858
RBC2 requirement	114,017,966
RBC2 Ratio	344%

The final RBC ratio is determined only after the accounts of the Company have been examined by the IC, specifically as to admitted and non-admitted assets as defined under the Insurance Code.

The Company's stockholders committed to infuse additional capital to fully comply with the minimum net worth requirements set by the IC.

As at December 31, 2017 and 2016, the estimated amounts of non-admitted assets, as defined under the insurance regulations, which are included in the statements of financial position are as follows:

	2017	2016
Premiums Receivable	**₱32,653,483**	₱19,560,739
Deferred tax assets	**13,191,958**	14,191,585
Property and equipment at net book value excluding computers	**4,370,510**	5,273,904
Other assets excluding receivables		31,288,819
	₱50,215,951	₱70,315,047

New regulatory framework

Pursuant to the powers vested in the Insurance Commissioner by Sections 189, 200, 437 and 438 of Republic Act (RA) No. 10607, otherwise known as the Insurance Code, as amended, the following regulatory requirements and actions for the new regulatory framework are hereby adopted and promulgated:

Circular Letter No. 2016-65, *Financial Reporting Framework* under Section 189 of the Amended Insurance Code (Republic Act No. 10607), prescribes the new financial reporting framework (FRF) that will be used for the statutory quarterly and annual reporting. This also includes rules and regulations concerning Titles III and IV of Chapter III of the Amended Insurance Code and all other accounts not discussed in the Amended Insurance Code but are used in accounting of insurance and reinsurance companies.

Circular Letter 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves*, prescribes the new valuation methodology for the non-life insurance companies. Non-life insurance companies will be changing the basis of valuation of their non-life insurance reserves. In addition to the unearned premium reserves, the concept of unexpired risk reserves is also included in the calculation of the premium liability. The incurred but not reported (IBNR) reserves will now be computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. A margin for adverse deviation is estimated based on standard projection techniques or combination of such techniques, such as but not limited to the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the Policy Liabilities at the 75th percentile level of sufficiency. Discount rates to be used shall be current risk-free rates. The rates shall exactly match the duration of the policy and the currency of the cash flows and shall be prescribed by IC.

26. **Insurance Risk, Financial Risks and Capital Management**

Governance Framework

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failure to exploit opportunities. The Company recognizes the importance of having an efficient and effective risk management system in place.

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintaining close monitoring 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 an appropriate solvency position and acceptable levels of risk to meet liabilities arising from claims.
The operations of the Company are subject to the regulatory requirements of the IC and the SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions [e.g., net worth and risk-based capital (RBC) requirements]. Such restrictive provisions minimize the risk of default and insolvency of the Company and are aimed at ensuring the Company's ability to meet unforeseen liabilities as these arise.

Insurance Risk

The principal risk the Company faces under insurance contracts is the possible occurrence of an insured event resulting in uncertainty of the timing and amount of the resulting claim. This is influenced by the following factors:

- *Occurrence Risk* - the possibility that the number of insured events reported in a particular period will differ from those expected.

- *Severity Risk* - the possibility that the cost of the events will differ from those expected.

- *Development Risk* - the possibility that changes may occur in the amount of an insurer's obligation at the end of the contract period.

The Company's exposure to insurance risk as at December 31, 2017 and 2016 is as follows:

	2017	2016
Gross Claims (Notes 8 and 13)	**₱446,614,942**	₱286,578,487
Less reinsurance recoverable on unpaid losses (Notes 8 and 13)	**246,170,891**	110,394,894
	₱200,444,051	₱176,183,593

The foregoing risk exposure is mitigated by diversification across a portfolio of insurance contracts and geographical areas. The variability of risk is also improved by careful selection and implementation of underwriting strategy guidelines, as well as through reinsurance arrangements.

The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. Amounts of estimates during the accident year are based on adjusters' report. Other estimates are based on reasonable approximation after an evaluation of reported claims. Adjustment to the loss reserves is made on the year the ultimate cost of claim becomes more certain. Reserves are either released or increased depending on said amounts.

Key Assumptions

The principal assumptions underlying the estimates are the Company's past claims experience and industry levels. This includes assumptions in respect to inflation factor, handling cost and number of claims for each accident year. Judgment is used to assess the extent to which external factors such as judicial decision and government legislation affect the estimates.

Sensitivity Analysis
The insurance provisions are sensitive to the interest rate, discount rate and persistency assumptions. Because of delays that arise between occurrences of claims and their subsequent notifications and actual settlement, the provisions are not known with certainty at reporting dates.

In accordance with the claims development methodology, Insurance Contract Liabilities for 2017 and 2016 were developed based on the following:

	Gross Insurance Contract Liabilities for 2017					
Accident Year	**2013 and Prior Years**	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate claims costs at the end of accident year	**₱1,118,291,031**	**₱405,709,030**	**₱62,039,249**	**₱151,979,507**	**₱289,518,231**	**₱289,518,231**
One year later	**985,065,533**	**182,269,651**	**80,372,262**	**204,333,894**	–	**204,333,894**
Two years later	**885,747,764**	**180,321,514**	**79,379,286**	–	–	**79,379,286**
Three years later	**865,903,589**	**180,026,676**	–	–	–	**180,026,676**
Four years later	**837,038,226**	–	–	–	–	**837,038,226**
Current estimate of cumulative claims	**837,038,226**	**180,026,676**	**79,379,286**	**204,333,894**	**289,518,231**	**1,590,296,313**
Cumulative payments to date	**795,179,978**	**158,868,880**	**67,668,263**	**89,458,000**	**54,560,150**	**1,165,735,271**
Liability recognized in the statements of financial position	**₱41,858,248**	**₱21,157,796**	**₱11,711,023**	**₱114,875,894**	**₱234,958,081**	**₱424,561,042**

	Gross Insurance Contract Liabilities for 2016					
Accident Year	2012 and Prior Years	2013	2014	2015	2016	Total
Estimate of ultimate claims costs at the end of accident year	₱905,965,845	₱214,183,652	₱405,709,030	₱62,039,249	₱151,979,507	₱151,979,507
One year later	806,902,882	184,386,181	182,549,651	80,372,262	–	80,372,262
Two years later	733,010,048	154,649,309	180,321,514	–	–	180,321,514
Three years later	718,763,614	149,019,566	–	–	–	149,019,566
Four years later	681,603,888	–	–	–	–	681,603,888
Current estimate of cumulative claims	681,603,888	149,019,566	180,321,514	80,372,262	151,979,507	1,243,296,737
Cumulative payments to date	648,042,141	116,929,529	153,466,303	53,823,873	15,467,094	987,728,940
Liability recognized in the statements of financial position	₱33,561,747	₱32,090,037	₱26,855,211	₱26,548,389	₱136,512,413	₱255,567,797

Insurance contract liabilities of ₱424.6 million and ₱255.6 million as at December 31, 2017 and 2016, respectively, exclude estimated IBNR of ₱22.1 million and ₱31.0 million in 2017 and 2016. Reinsurance recoverable on unpaid losses amounted to ₱246.2 million and ₱110.4 million, as at December 31, 2017 and 2016, respectively. Hence, net insurance contract liabilities as at December 31, 2017 and 2016 amounted to ₱178.39 million and ₱145.2 million, respectively (see Note 13).

Details of the net loss presented in the following tables reflect the cumulative incurred claims, including both claims notified and IBNR claims, for each successive accident year at each reporting date, together with the cumulative payments to date.

	Net Insurance Contract Liabilities for 2017					
Accident Year	**2013 and Prior Years**	**2014**	**2015**	**2016**	**2017**	**Total**
Estimate of ultimate claims costs at the end of accident year	**₱139,656,108**	**₱54,375,149**	**₱44,208,586**	**₱107,076,482**	**₱95,786,945**	**₱95,786,945**
One year later	**145,670,025**	**66,258,867**	**60,873,014**	**117,847,601**	–	**117,847,601**
Two years later	**139,869,818**	**61,327,577**	**63,086,443**	–	–	**63,086,443**
Three years later	**140,306,054**	**62,816,685**	–	–	–	**62,816,685**
Four years later	**138,140,021**	–	–	–	–	**138,140,021**
Current estimate of cumulative claims	**138,140,021**	**62,816,685**	**63,086,443**	**117,847,601**	**95,786,945**	**477,677,695**
Less cumulative payments to date	**132,026,165**	**48,429,387**	**52,137,190**	**48,622,785**	**18,072,017**	**299,287,544**
Net insurance liability recognized in the statements of financial position	**₱6,113,856**	**₱14,387,298**	**₱10,949,253**	**₱69,224,816**	**₱77,714,928**	**₱178,390,151**

Accident Year	2012 and Prior Years	2013	2014	2015	2016	Total
	Net Insurance Contract Liabilities for 2016					
Estimate of ultimate claims costs at the end of accident year	₱77,496,482	₱62,159,625	₱54,375,149	₱44,208,586	₱107,076,482	₱107,076,482
One year later	80,406,286	65,263,739	66,258,867	60,873,014	–	60,873,014
Two years later	77,369,488	62,500,330	61,327,577	–	–	61,327,577
Three years later	77,707,776	62,598,278	–	–	–	62,598,278
Four years later	74,592,423	–	–	–	–	74,592,423
Current estimate of cumulative claims	74,592,423	62,598,278	61,327,577	60,873,014	107,076,482	366,467,774
Less cumulative payments to date	69,769,124	55,294,543	43,904,692	40,226,997	12,099,515	221,294,871
Net insurance liability recognized in the statements of financial position	₱ 4,823,299	₱7,303,735	₱17,422,885	₱20,646,017	₱ 94,976,967	₱145,172,903

The table below sets out the concentration of claims and losses payable (excluding IBNR) by type of contract.

December 31, 2017

	Gross Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Fire	**₱93,897,437**	**₱30,469,009**	**₱63,428,428**
Casualty	**119,078,040**	**63,393,680**	**55,684,360**
Engineering	**194,505,847**	**151,209,476**	**43,296,371**
Motor	**7,413,132**	**967,077**	**6,446,055**
Bonds	**9,421,111**	**–**	**9,421,111**
Marine	**243,759**	**130,105**	**113,654**
Personal accident	**1,716**	**1,544**	**172**
	₱424,561,042	**₱246,170,891**	**₱178,390,151**

December 31, 2016

	Gross Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
Fire	₱125,812,210	₱44,268,958	₱81,543,252
Casualty	86,081,221	48,460,439	37,620,782
Engineering	35,266,291	16,193,739	19,072,552
Motor	7,306,155	1,329,710	5,976,445
Bonds	800,946	–	800,946
Marine	244,777	130,767	114,010
Personal accident	56,197	11,281	44,916
	₱255,567,797	₱110,394,894	₱145,172,903

Financial Risk
The Company is exposed to financial risk through its financial assets and financial liabilities. The significant risks that the Company faces are credit risk, liquidity risk and market risk.

Credit Risk
Credit risk is the risk that a counterparty will not be able to meet its contractual obligations resulting in financial loss to the Company.

Credit risk limit is used to manage credit exposure, which specifies credit exposure limit for each counterparty depending on its size and financial well-being.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statements of financial position (or in the detailed analysis provided in the notes to the financial statements), summarized as follows:

	2017	2016
Cash in bank and cash equivalents (Note 6)	**₱562,106,555**	₱252,049,420
Insurance receivables - net (Note 7)	**176,667,367**	158,752,990
HTM investments (Note 9)	**162,455,202**	138,677,004
Loans and receivable (Note 9)	**2,254,760**	2,746,291
Other assets*	**3,188,103**	3,024,389
	₱906,671,987	₱555,250,094

**Excluding prepaid taxes, input VAT and prepayments*

The aging of the insurance receivable as at December 31, is as follows:

	2017				
	Current	**31 to 60 Days**	**61 to 90 Days**	**More than 90 Days**	**Total**
Premiums receivable	**₱7,138,226**	**₱4,261,060**	**₱2,790,313**	**₱33,087,363**	**₱47,276,962**
Due from ceding companies	**97,468**	**(214,522)**	**969,413**	**37,685,465**	**38,537,824**
Funds held by ceding companies	**–**	**–**	**–**	**2,420,023**	**2,420,023**
Reinsurance recoverable on paid losses	**12,398,510**	**30,307,788**	**3,628,457**	**42,531,682**	**88,866,437**
	₱19,634,204	**₱34,354,326**	**₱7,388,183**	**₱115,724,533**	**₱177,101,246**

	2016				
	Current	31 to 60 Days	61 to 90 Days	More than 90 Days	Total
Premiums receivable	₱3,472,913	₱4,545,621	₱3,962,489	₱19,560,739	₱31,541,762
Due from ceding companies	4,028,234	1,816,284	1,859,071	63,545,387	71,248,976
Funds held by ceding companies	–	–	–	2,420,023	2,420,023
Reinsurance recoverable on paid losses	8,628,368	1,589,051	2,148,111	41,610,578	53,976,108
	₱16,129,515	₱7,950,956	₱7,969,671	₱127,136,727	₱159,186,869

The following tables summarize the credit quality of the Company's financial assets based on their historical experience with the corresponding third parties:

	2017					
	Neither Past Due nor Impaired			**Past Due but**		
	Grade A	**Grade B**	**Grade C**	**not Impaired**	**Impaired**	**Total**
Cash in banks and cash equivalents	**₱562,106,555**	**₱–**	**₱–**	**₱–**	**₱–**	**₱562,106,555**
Insurance receivables - net	**7,388,182**	**–**	**–**	**169,713,064**	**(433,879)**	**176,667,367**
HTM investments	**–**	**162,455,202**	**–**	**–**	**–**	**162,455,202**
Loans and receivable	**2,254,760**	**–**	**–**	**–**	**–**	**2,254,760**
Other assets*	**–**	**3,188,103**	**–**	**–**	**–**	**3,188,103**
	₱571,749,497	**₱165,643,305**	**₱–**	**₱169,713,064**	**(₱433,879)**	**₱906,671,987**

**Excluding prepaid taxes, input VAT and prepayments*

	2016					
	Neither Past Due nor Impaired			Past Due but		
	Grade A	Grade B	Grade C	not Impaired	Impaired	Total
Cash in banks and cash equivalents	₱252,049,420	₱–	₱–	₱–	₱–	₱252,049,420
Insurance receivable - net	32,050,142	–	–	127,136,727	(433,879)	158,752,990
HTM investments	–	138,677,004	–	–	–	138,677,004
Loans and receivable	2,746,290	–	–	–	–	2,746,290
Other assets*	–	3,024,389	–	–	–	3,024,389
	₱286,845,852	₱141,701,393	₱–	₱127,136,727	(₱433,879)	₱555,250,093

**Excluding prepaid taxes, input VAT and prepayments*

The Company classifies its unimpaired financial assets into the following credit grades:

- Grade A pertains to those financial assets that are consistently collected before the maturity date.
- Grade B includes financial assets that are collected on their due dates without an effort from the Company to follow them up.

- Grade C pertains to financial assets which are collected on their due dates and require Company's persistent effort to collect.

- Past due but not impaired include those financial assets outstanding beyond their due date but still collectible.

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty meeting its financial obligations. Liquidity risk may result from either inability to sell financial assets quickly at their fair values or the Company's inability to generate cash flows to repay financial liability when due.

The Company manages liquidity through regular monitoring of its cash position to ensure that maturing liabilities will be adequately met.

As at December 31, 2017 and 2016, the Company's financial assets exceeded the financial liabilities as shown in the tables below.

	2017						
	Less than 1 Year	**More than 1 - 2 Years**	**More than 2 - 3 Years**	**More than 3 - 4 Years**	**More than 4 - 5 Years**	**More than 5 Years**	**Total**
Financial Assets							
Cash and cash equivalents	**₱562,106,555**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱562,106,555**
Insurance receivable - net	**176,667,367**	–	–	–	–	–	**176,667,367**
Investments:							
AFS financial assets	**540,704**	–	–	–	–	–	**540,704**
HTM investments	**108,953,527**	**10,000,000**	**3,300,000**	**20,161,247**	**20,040,428**	–	**162,455,202**
Loans and receivable	**2,254,760**	–	–	–	–	–	**2,254,760**
Other assets*	**3,188,104**	–	–	–	–	–	**3,188,104**
Total Financial Assets	**853,711,017**	**10,000,000**	**3,300,000**	**20,161,247**	**20,040,428**	–	**907,212,692**
Financial Liabilities							
Commission payable - Direct**	**₱11,114,176**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱11,114,176**
Accounts payable - Others**	**6,843,421**	–	–	–	–	–	**6,843,421**
Insurance payables	**214,553,081**	–	–	–	–	–	**214,553,081**
Outstanding claims provision	**446,614,942**	–	–	–	–	–	**446,614,942**
Total Financial Liabilities	**679,125,620**	–	–	–	–	–	**679,125,620**
Net Liquidity Surplus	**₱174,585,397**	**₱10,000,000**	**₱3,300,000**	**₱20,161,247**	**₱20,040,428**	**₱–**	**₱228,087,072**

**Excluding prepaid taxes, input vat and prepayments*
***Included under "Accrued payable and accrued expenses" account*

	2016						
	Less than 1 Year	More than 1 - 2 Years	More than 2 - 3 Years	More than 3 - 4 Years	More than 4 - 5 Years	More than 5 Years	Total
Financial Assets							
Cash and cash equivalents	₱252,049,421	₱–	₱–	₱–	₱–	₱–	₱252,049,420
Insurance receivables - net	158,752,990	–	–	–	–	–	158,752,990
Investments:							
AFS financial assets	437,648	–	–	–	–	–	437,648
HTM investments	33,357,345	51,811,195	10,000,000	3,300,000	10,000,000	30,208,464	138,677,004
Loans and receivable	2,746,291	–	–	–	–	–	2,746,291
Other assets*	3,024,389	–	–	–	–	–	3,024,389
Total Financial Assets	450,368,083	51,811,195	10,000,000	3,300,000	10,000,000	30,208,464	555,687,742
Financial Liabilities							
Commission payable - direct**	9,631,173	–	–	–	–	–	9,631,173
Accounts payable - others**	15,549,177	–	–	–	–	–	15,549,177
Insurance payables	187,096,374	–	–	–	–	–	187,096,374
Outstanding claims provision	286,578,487	–	–	–	–	–	286,578,487
Total Financial Liabilities	498,855,211	–	–	–	-	–	498,855,211
Net Liquidity Surplus	(₱48,487,128)	₱51,811,195	₱10,000,000	₱3,300,000	₱10,000,000	₱30,208,464	₱56,832,531

**Excluding prepaid taxes, input vat and prepayments*
***Included under "Accrued payable and accrued expenses" account*

It is unusual for the Company primarily transacting insurance business to predict the requirements of funding with absolute certainty as theory of probability is applied to insurance contracts to ascertain the likely provision and time period when such liabilities will require settlement. The amount and maturities in respect of insurance liabilities are thus based on management's best estimate and on statistical techniques and past experiences.

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

The Company manages market risk by ensuring it has a diversified portfolio of investments approved by the BOD and in compliance with the guidelines of the IC. The funds are generally held in short and medium term instrument, ensuring good returns while minimizing market risk.

Foreign Currency Risk
Foreign currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The Company's exposure to foreign currency risk based on notional amounts as at December 31, 2017 and 2016 follows:

	2017		2016	
	US Dollar	**Philippine peso**	US Dollar	Philippine peso
Cash in banks	**$216,839**	**₱10,826,762**	$53,176	₱2,643,911

[1]*The exchange rates used are ₱49.93 to US$1 in 2017 and ₱49.72 to US$1 in 2016*

The table below demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's income before income tax and equity.

	Increase/Decrease in US Dollar Exchange Rate	**Effect on Income Before Income Tax**	**Effect on Equity**
2017	**+9%**	**₱974,409**	**₱682,086**
	-9%	**(974,409)**	**(682,086)**
2016	+5%	₱132,195	₱92,537
	-5%	(132,195)	(92,537)

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company manages its interest rate risk by minimizing the duration of its fixed rates financial assets.

Price Risk
The Company's price risk exposure at each reporting period date relates to financial assets and liabilities whose values fluctuates as a result of changes in market price of AFS financial assets. However, changes in price risk affecting AFS financial assets do not have significant impact on the financial statements considering the insignificant amount of AFS financial assets as at December 31, 2017 and 2016.

Capital Management
The Company's objectives when managing capital is to maintain a certain level of capital structure to ensure compliance with minimum net worth capital requirements imposed by IC as well as to adequately protect the claims of the Company's policyholders (see Note 25).

The Company regards the following as the capital it manages as at December 31:

	2017	2016 (as restated)
Capital stock	**₱565,000,000**	₱250,000,000
Contributed surplus	**151,084,805**	44,269
Reserve for retirement liability (Note 23)	**(979,079)**	(1,840,129)
Revaluation reserve on AFS financial assets (Note 10)	**(598,701)**	(701,757)
Retained earnings (deficit)	**(300,033,486)**	(161,472,755)
	₱414,473,539	₱86,029,628

There were no changes in the Company's approach to capital management during the year (see Note 25).

27. **Fair Value Measurement**

The fair values of cash and cash equivalents, accrued interest receivable, accrued receivable from employees, rental deposit, insurance contracts receivables, accounts payable and accrued expenses, reinsurance liabilities and Outstanding claims provision approximate their carrying amounts due to the relatively short-term in nature.

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

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of the financial instruments represents its fair value as at December 31, 2017 and 2016, respectively. Quoted and unquoted equity securities classified under AFS investments are categorized under Level 1 and Level 3 respectively, of the fair value hierarchy.

During the reporting periods ended December 31, 2017 and 2016, there were no transfers between level 1 and level 2 fair value movements, and no transfers into and out of level 3 fair value measurement.

28. **Restatement**

In 2017, the Company recorded restatement adjustments related to the change in accounting policy on the valuation of incurred but not reported (IBNR) claims and other prior period adjustments related to deferred reinsurance premiums, adjustment premiums and reinstatement premiums.

The change in accounting policy on IBNR claims is in line with IC CL 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves,* which took effect on January 1, 2017. The said circular mandated insurance companies to calculate IBNR provision based on standard actuarial projection techniques or combination of such techniques.

The impact of the restatement determined by management is presented as follows:

	December 31, 2016		
	As previously reported	Adjustments	As restated
Statement of financial position			
Assets			
Deferred Reinsurance premium	₱168,191,408	(₱70,448,947)	₱97,742,461
Liabilities			
Insurance contract liabilities	460,675,510	29,010,690	489,686,200
Equity			
Deficit	(6,164,473)	(155,308,282)	161,472,755
Statement of income			
Reinsurers' share of gross earned premiums on insurance contracts	496,903,180	15,356,843	512,260,025
Gross change in insurance contract liabilities	38,477,861	14,706,057	53,183,918

	January 1, 2016		
	As previously reported	Adjustments	As restated
Statement of financial position			
Assets			
Deferred reinsurance premium	₱118,975,340	(₱55,402,366)	₱63,572,974
Liabilities			
Insurance contract liabilities	382,471,311	14,304,633	396,775,944
Insurance payables	85,934,487	55,538,381	141,472,868
Equity			
Retained earnings (Deficit)	82,751,307	(125,245,381)	(42,494,074)
Statement of income			
Reinsurers' share of gross earned premiums on insurance contracts	448,287,986	60,687,378	508,975,364
Gross change in insurance contract liabilities	(402,280,232)	14,304,633	(387,975,599)

29. Supplementary Information Required under Revenue Regulations No.15-2010

The Company reported and/or paid the following types of taxes in 2017:

Value Added Tax (VAT)
Net sales/receipts and output VAT declared in the Company's VAT returns filed for the fiscal year are as follows:

	Net Sales/Receipt	Output VAT
Vatable sales	₱443,494,004	₱53,219,280
Zero-rated /exempt	16,844,180	–
	₱460,338,184	₱53,219,280

The Company incurred zero-rated sales composed of sales to entities registered with the Philippine Economic Zone Authority (or other free trade zones). This is in accordance with National Internal Revenue Code Section 106 (A) (2) and 108 (B).

Details of the input VAT are as follows:

Beginning balances:	
Input tax carry over from previous period	₱2,221,591
Current year's domestic purchases	
Domestic purchase of capital goods not exceeding ₱1,000,000	3,928
Domestic purchase of services	7,361,153
Domestic purchases of goods other than capital goods	1,029,744
	10,616,416
Deductions from input tax	
Input tax on purchases of capital goods exceeding ₱1,000,000 deferred for the succeeding period	(1,952,019)
Input tax allocable to exempt sales	(206,484)
	(2,158,503)
Claims for tax credit/refund	
Monthly VAT Payments - previous two (2) months	44,106,671
Advance payment for Certificate of Coverage	188,378
	44,295,049
Total allowable input VAT	52,752,962
Input VAT applied to Output VAT	52,752,962
Balance at the end of the year:	₱–

Documentary Stamp Tax

On policies issued	₱54,769,135
On subscription of shares	1,950,000
	₱56,719,135

Withholding Taxes

Tax on compensation and benefits	₱9,321,364
Expanded withholding taxes	3,584,121
Final withholding taxes	3,575
	₱12,909,060

Other Taxes and Licenses

Other taxes paid during the year recognized under "Taxes and licenses" account under Operating Expenses	
Documentary stamp tax	₱525,208
Local government tax expense	155,880
License and permit fees	337,113
Others	258,405
	₱1,276,606

Tax Assessments and Cases

The Company is not involved in any tax cases, litigations and/or prosecutions in courts or bodies outside the BIR.