

Asia Insurance (Philippines) Corporation

Financial Statements

As at and for the years ended December 31, 2018 and 2017

Independent Auditor's Report

To the Board of Directors and Shareholders of
Asia Insurance (Philippines) Corporation
15th Floor, Tytana Plaza
Plaza Lorenzo Ruiz
Binondo, Manila

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Asia Insurance (Philippines) Corporation (the "Company") as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2018 and 2017;
- the statements of total comprehensive income for the years ended December 31, 2018 and 2017;
- the statements of changes in equity for the years ended December 31, 2018 and 2017;
- the statements of cash flows for the years ended December 31, 2018 and 2017; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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.

Independent Auditor's Report
To the Board of Directors and Shareholders of
Asia Insurance (Philippines) Corporation
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- 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.

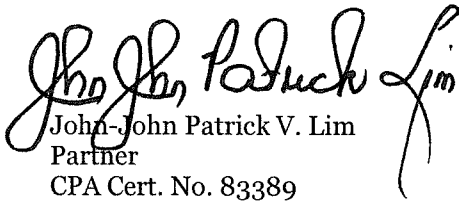
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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To the Board of Directors and Shareholders of
Asia Insurance (Philippines) Corporation
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Report on Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 22 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 supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.



John-John Patrick V. Lim
Partner

CPA Cert. No. 83389

P.T.R. No. 0007706, issued on January 8, 2019, Makati City

SEC A.N. (individual) as general auditors PA-A-836-A, Category A; effective until August 3, 2019

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

TIN 112-071-386

BIR A.N. 08-000745-017-2018, issued on December 10, 2018; effective until December 9, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
April 26, 2019

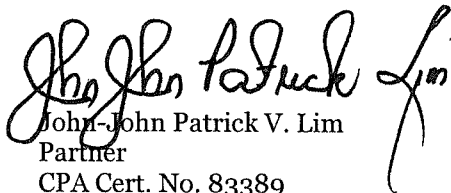
Statement Required by Section 8-A, Revenue Regulations No. V-1

To the Board of Directors and Shareholders of
Asia Insurance (Philippines) Corporation
15th Floor, Tytana Plaza
Plaza Lorenzo Ruiz
Binondo, Manila

None of the partners of the firm has any financial interest in Asia Insurance (Philippines) Corporation or any family relationships with its president, manager, or principal shareholders.

The supplementary information on taxes and licenses is presented in Note 22 to the financial statements.

Isla Lipana & Co.



John-John Patrick V. Lim
Partner

CPA Cert. No. 83389

P.T.R. No. 0007706, issued on January 8, 2019, Makati City

SEC A.N. (individual) as general auditors PA-A-836-A, Category A; effective until August 3, 2019

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

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April 26, 2019

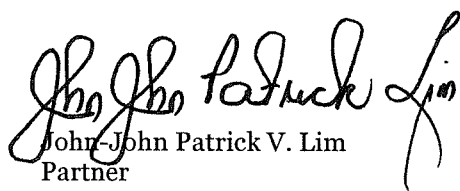
Statements Required by Rule 68, Part I, Section 3F,
Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of
Asia Insurance (Philippines) Corporation
15th Floor, Tytana Plaza
Plaza Lorenzo Ruiz
Binondo, Manila

We have audited the financial statements of Asia Insurance (Philippines) Corporation (the "Company") as at and for the year ended December 31, 2018, on which we have rendered the attached report dated April 26, 2019.

In compliance with SRC Rule 68 and based on the certification received from the Company's corporate secretary and the results of our work done, as at December 31, 2018, the Company has twenty-two (22) shareholders, each owning one hundred (100) or more shares.

Isla Lipana & Co.



John Patrick V. Lim
Partner

CPA Cert. No. 83389

P.T.R. No. 0007706, issued on January 8, 2019, Makati City

SEC A.N. (individual) as general auditors PA-A-836-A, Category A; effective until August 3, 2019

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

TIN 112-071-386

BIR A.N. 08-000745-017-2018, issued on December 10, 2018; effective until December 9, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

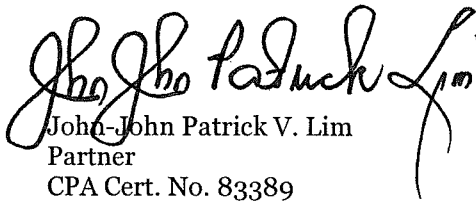
Makati City
April 26, 2019

Statements Required by Rule 68
Securities Regulation Code (SRC)

To the Board of Directors and Shareholders of
Asia Insurance (Philippines) Corporation
15th Floor, Tytana Plaza
Plaza Lorenzo Ruiz
Binondo, Manila

We have audited the financial statements of Asia Insurance (Philippines) Corporation as at and for the year ended December 31, 2018, on which we have rendered the attached report dated April 26, 2019. The supplementary information shown in the Reconciliation of Retained Earnings Available for Dividend Declaration and Schedule of Philippine Financial Reporting Standards effective as at December 31, 2018, as additional components required by Rule 68 of the SRC, is presented for purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information have been prepared in accordance with Rule 68 of the SRC.

Isla Lipana & Co.



John-John Patrick V. Lim
Partner

CPA Cert. No. 83389

P.T.R. No. 0007706, issued on January 8, 2019, Makati City

SEC A.N. (individual) as general auditors PA-A-836-A, Category A; effective until August 3, 2019

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

TIN 112-071-386

BIR A.N. 08-000745-017-2018, issued on December 10, 2018; effective until December 9, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
April 26, 2019

Asia Insurance (Philippines) Corporation

Statements of Changes in Equity
For the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

	Share capital (Note 11)	Contributed surplus (Note 11)	Accumulated other comprehensive income (Note 11)	Retained earnings (Note 11)	Total
Balances at January 1, 2017	350,000,000	500,000	2,763,995	439,633,784	792,897,779
Comprehensive income					
Net income for the year	-	-	-	50,179,643	50,179,643
Other comprehensive loss	-	-	(526,186)	-	(526,186)
Total comprehensive income for the year	-	-	(526,186)	50,179,643	49,653,457
Transaction with owners					
Cash dividends	-	-	-	(17,500,000)	(17,500,000)
Balances at December 31, 2017	350,000,000	500,000	2,237,809	472,313,427	825,051,236
Comprehensive income					
Net income for the year	-	-	-	79,649,572	79,649,572
Other comprehensive loss	-	-	(4,420,536)	-	(4,420,536)
Total comprehensive income for the year	-	-	(4,420,536)	79,649,572	75,229,036
Balances at December 31, 2018	350,000,000	500,000	(2,182,727)	551,962,999	900,280,272

(The notes on pages 1 to 62 are integral part of these financial statements)

Note 2 - Additional information on the results of operations by line of business

The following information shows the financial information by line of business for the years ended December 31:

	Fire	Marine	Motor Car	Casualty	Bond	Total
2018						
UNDERWRITING INCOME						
Premiums written, net of returns	236,782,809	15,075,625	363,232,696	73,452,670	29,211,499	717,755,299
Reinsurance premiums ceded	(208,298,979)	(11,073,583)	(3,853,096)	(59,178,017)	(15,564,653)	(297,968,328)
Premiums retained	28,483,830	4,002,042	359,379,600	14,274,653	13,646,846	419,786,971
Increase in reserve for unearned premiums, net	5,736,542	144,193	4,737,141	330,583	807,077	11,755,536
Premiums earned	34,220,372	4,146,235	364,116,741	14,605,236	14,453,923	431,542,507
Commissions earned	35,538,201	3,860,504	223,978	17,047,441	6,644,928	63,315,052
Other underwriting income	-	-	25,998	189,452	316,111	531,161
GROSS UNDERWRITING INCOME	69,758,573	8,006,739	364,366,317	31,842,129	21,414,962	495,388,720
UNDERWRITING EXPENSES						
Commissions and other underwriting expenses	37,054,362	4,887,177	124,034,831	19,549,418	9,815,630	195,341,418
Losses and claims, net	7,074,120	(43,296)	160,629,320	5,698,554	1,036,252	174,394,950
	44,128,482	4,843,881	284,664,151	25,247,972	10,851,882	369,736,368
NET UNDERWRITING INCOME	25,630,091	3,162,858	79,702,166	6,594,157	10,563,080	125,652,352
INVESTMENT AND OTHER INCOME						61,845,672
NET UNDERWRITING AND INVESTMENT INCOME						187,498,024
GENERAL AND ADMINISTRATIVE EXPENSES						(76,322,058)
INCOME BEFORE INCOME TAX						111,175,966
PROVISION FOR INCOME TAX						(31,526,394)
NET INCOME FOR THE YEAR						79,649,572
OTHER COMPREHENSIVE LOSS						(4,420,536)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						75,229,036

	Fire	Marine	Motor Car	Casualty	Bond	Total
2017						
UNDERWRITING INCOME						
Premiums written, net of returns	215,724,109	12,218,853	341,825,299	71,032,125	26,679,591	667,479,977
Reinsurance premiums ceded	(191,559,199)	(8,069,043)	(3,548,352)	(58,749,036)	(13,057,482)	(274,983,112)
Premiums retained	24,164,910	4,149,810	338,276,947	12,283,089	13,622,109	392,496,865
Increase in reserve for unearned premiums, net	(6,040,974)	(116,893)	(9,913,335)	(378,447)	(1,361,467)	(17,811,116)
Premiums earned	18,123,936	4,032,917	328,363,612	11,904,642	12,260,642	374,685,749
Commissions earned	27,698,037	2,959,754	97,903	17,707,150	3,299,445	51,762,289
Other underwriting income	26,074	-	55,187	749,594	301,363	1,132,218
GROSS UNDERWRITING INCOME	45,848,047	6,992,671	328,516,702	30,361,386	15,861,450	427,580,256
UNDERWRITING EXPENSES						
Commissions and other underwriting expenses	30,001,060	4,284,493	116,659,822	18,362,477	6,744,819	176,052,671
Losses and claims, net	3,794,229	36,320	146,584,485	7,479,764	(909,849)	156,984,949
	33,795,289	4,320,813	263,244,307	25,842,241	5,834,970	333,037,620
NET UNDERWRITING INCOME	12,052,758	2,671,858	65,272,395	4,519,145	10,026,480	94,542,636
INVESTMENT AND OTHER INCOME						39,458,285
NET UNDERWRITING AND INVESTMENT INCOME						134,000,921
GENERAL AND ADMINISTRATIVE EXPENSES						(70,649,940)
INCOME BEFORE INCOME TAX						63,350,981
PROVISION FOR INCOME TAX						(13,171,338)
NET INCOME FOR THE YEAR						50,179,643
OTHER COMPREHENSIVE LOSS						(526,186)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						49,653,457

Asia Insurance (Philippines) Corporation

Statements of Financial Position

December 31, 2018 and 2017

(All amounts in Philippine Peso)

	Notes	2018	2017
ASSETS			
Cash and cash equivalents	3	273,888,688	327,951,860
Receivables, net	4	248,949,320	242,000,629
Available-for-sale securities	5	66,166,032	37,467,390
Held-to-maturity securities	5	793,447,450	689,540,524
Reinsurance recoverable on unpaid losses	6	236,036,746	141,516,990
Deferred reinsurance premiums	6	114,981,269	109,698,944
Deferred acquisition costs, net	6	86,225,114	77,325,969
Investment property, net	7	18,328,711	20,084,321
Property and equipment, net	8	8,688,168	12,178,467
Deferred income tax assets, net	9	21,541,442	29,990,375
Other assets		5,544,367	4,615,461
Total assets		1,873,797,307	1,692,370,930
LIABILITIES AND EQUITY			
Losses and claims payable	6	365,151,981	262,510,267
Reserve for unearned premiums	6	276,135,347	282,608,557
Due to reinsurers and ceding companies	17	196,171,406	166,693,351
Funds held for reinsurers	17	41,394,577	35,533,493
Commissions payable		10,297,211	2,114,737
Accounts payable and other liabilities	10	78,421,458	102,614,120
Income tax payable		5,945,055	15,245,169
Total liabilities		973,517,035	867,319,694
Share capital	11	350,000,000	350,000,000
Contributed surplus	11	500,000	500,000
Accumulated other comprehensive (loss) income	11	(2,182,727)	2,237,809
Retained earnings		551,962,999	472,313,427
Total equity		900,280,272	825,051,236
Total liabilities and equity		1,873,797,307	1,692,370,930

(The notes on pages 1 to 62 are integral part of these financial statements.)

Asia Insurance (Philippines) Corporation

Statements of Total Comprehensive Income For the years ended December 31, 2018 and 2017 (All amounts in Philippine Peso)

	Notes	2018	2017
UNDERWRITING INCOME			
Premiums written, net of returns	2	717,755,299	667,479,977
Reinsurance premiums ceded	17	(297,968,328)	(274,983,112)
Premiums retained		419,786,971	392,496,865
Decrease (increase) in reserve for unearned premiums, net	6	11,755,536	(17,811,116)
Premiums earned		431,542,507	374,685,749
Commissions earned	17	63,315,052	51,762,289
Other underwriting income		531,161	1,132,218
GROSS UNDERWRITING INCOME		495,388,720	427,580,256
UNDERWRITING EXPENSES			
Commissions and other underwriting expenses	6	195,341,418	176,052,671
Losses and claims, net	6,17	174,394,950	156,984,949
		369,736,368	333,037,620
NET UNDERWRITING INCOME		125,652,352	94,542,636
INVESTMENT AND OTHER INCOME, NET			
Interest income	12	35,157,230	34,945,940
Foreign exchange gain (loss), net	20	17,632,470	(143,658)
Rent	7	6,381,518	5,716,209
Dividend	5	1,260,232	1,171,747
Loss on sale of investments	5	(72,486)	(1,074,178)
Miscellaneous		1,486,708	(1,157,775)
		61,845,672	39,458,285
NET UNDERWRITING AND INVESTMENT INCOME		187,498,024	134,000,921
GENERAL AND ADMINISTRATIVE EXPENSES			
Salaries and employee benefits	13	42,827,733	38,316,078
Occupancy and equipment-related costs		10,278,196	10,453,263
Transportation and travel		5,488,041	5,555,387
Representation and entertainment		4,383,972	4,585,587
Printing, stationery and supplies		2,508,190	2,291,835
Taxes, licenses and fees		1,865,548	1,637,277
Professional and directors' fees	17	1,672,532	1,292,260
Communication and postage		1,276,863	1,244,813
Association dues	7	1,272,003	1,095,938
Advertising and promotion		28,000	25,880
Miscellaneous		4,720,980	4,151,622
		76,322,058	70,649,940
INCOME BEFORE INCOME TAX		111,175,966	63,350,981
PROVISION FOR INCOME TAX	9,15	(31,526,394)	(13,171,338)
NET INCOME FOR THE YEAR		79,649,572	50,179,643
OTHER COMPREHENSIVE LOSS			
Item that will be subsequently reclassified to profit or loss			
Net change in fair value of available-for-sale securities, net of tax		(2,308,864)	(223,299)
Item that will not be subsequently reclassified to profit or loss			
Remeasurement loss on retirement benefit obligation, net of tax		(2,111,672)	(302,887)
		(4,420,536)	(526,186)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		75,229,036	49,653,457

(The notes on pages 1 to 62 are integral part of these financial statements)

Asia Insurance (Philippines) Corporation

Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(All amounts in Philippine Peso)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	16	78,346,825	82,303,537
Interest received		5,343,186	5,072,970
Contributions to the retirement fund	14	(2,000,000)	(3,500,000)
Income taxes paid		(30,483,060)	(18,458,544)
Net cash from operating activities		51,206,951	65,417,963
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Held-to-maturity securities	5	(160,679,880)	(79,642,004)
Available-for-sale securities	5	(32,488,765)	(6,854,603)
Property and equipment	8	(692,012)	(2,261,497)
Proceeds from:			
Maturities and disposals of held-to-maturity securities	5	72,495,296	55,417,600
Maturities and disposal of available-for-sale securities	5	418,642	27,156,385
Disposal of property and equipment	8	-	4,464
Interest received		27,550,039	28,854,757
Dividends received	5	1,260,232	1,171,747
Net cash (used in) from investing activities		(92,136,448)	23,846,849
CASH FLOWS USED IN FINANCING ACTIVITIES			
Cash dividends paid	11	(14,875,000)	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(55,804,497)	89,264,812
CASH AND CASH EQUIVALENTS			
At January 1		327,951,860	239,236,175
Effects of exchange rate changes on cash and cash equivalents		1,741,325	(549,127)
At December 31	3	273,888,688	327,951,860

(The notes on pages 1 to 62 are integral part of these financial statements)

Asia Insurance (Philippines) Corporation

Notes to Financial Statements

As at and for the years ended December 31, 2018 and 2017

(All amounts are shown in Philippine Peso, unless otherwise stated)

Note 1 - General information

Asia Insurance (Philippines) Corporation (the “Company”) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) primarily to engage in selling of non-life insurance policies on fire, marine cargo, motor vehicle, casualty, surety bond, personal accident, comprehensive general liability, engineering lines and miscellaneous insurances.

As at reporting dates, the Company is 20% owned by Asia Insurance International (Holdings), Inc., 11% owned by APIC Holdings, Inc., 10% owned by Bangkok Bank Public Company, Ltd. and a number of corporate and individual shareholders.

The Company’s registered office, which is also its principal place of business, is located at the 15th Floor, Tytana Plaza, Plaza Lorenzo Ruiz, Binondo, Manila.

The Company has 85 employees as at December 31, 2018 (2017 - 82).

The financial statements have been approved and authorized for issuance by the Company’s Board of Directors on April 26, 2019.

Note 3 - Cash and cash equivalents

The details of the account at December 31 are as follows:

	Interest rate (%)		Amount	
	2018	2017	2018	2017
Cash on hand	-	-	40,747,033	20,337,714
Cash in banks				
Philippine Peso	0.05 - 0.50	0.05 - 0.50	37,786,132	61,362,724
US Dollar	0.13 - 0.25	0.13 - 0.25	17,143,903	47,486,030
Time deposits				
Philippine Peso	0.75 - 5.88	0.63 - 2.50	167,139,947	188,268,887
US Dollar	0.50 - 2.50	0.16 - 2.50	10,992,208	10,415,907
Canadian Dollar	0.13	0.44	79,465	80,598
			273,888,688	327,951,860

The maturities of cash equivalents which consist of time deposits from reporting dates are as follows:

	2018	2017
US Dollar	30-63 days	30-63 days
Philippine Peso	30-90 days	30-90 days

The related interest earned on cash and cash equivalents is presented in Note 12.

Cash on hand represents undeposited cash collections and various cash funds as at December 31, 2018 and 2017.

Cash and cash equivalents are classified as current.

Note 4 - Receivables, net

The account at December 31 consists of:

	2018	2017
Receivables arising from insurance contracts		
Premium receivable	64,590,074	84,544,144
Reinsurance recoverable on paid losses	138,953,265	115,090,192
Due from reinsurers and ceding companies	8,887,415	7,642,849
Funds held by ceding companies	4,130,211	5,798,073
	216,560,965	213,075,258

(forward)

(continued)

Other receivables		
Accounts receivable	25,650,489	22,982,342
Accrued interest income	8,172,017	5,908,012
Accrued rental income	-	1,469,168
Refundable deposits	69,700	69,700
Security fund	49,149	49,149
	<u>33,941,355</u>	<u>30,478,371</u>
Total receivables	250,502,320	243,553,629
Allowance for impairment on premium receivable	(1,553,000)	(1,553,000)
	<u>248,949,320</u>	<u>242,000,629</u>

The Company's receivables are all current, except for refundable deposits and security fund.

Accounts receivable is mainly composed of advances to employees.

The security fund is maintained in compliance with Sections 365 and 367 of the Insurance Code of the Philippines (Insurance Code). The amount of security fund is determined by and deposited with the Insurance Commission (IC) to pay valid claims against insolvent insurance companies.

There are no movements in allowance for impairment on premium receivable in 2018 and 2017.

There is no concentration of credit risk to a single counterparty with respect to receivables arising from insurance contracts.

Note 5 - Investments

Details and classification of the Company's investments at December 31 follow:

	2018	2017
Available-for-sale securities	66,166,032	37,467,390
Held-to-maturity securities	793,447,450	689,540,524
	<u>859,613,482</u>	<u>727,007,914</u>

The movements in investments are summarized as follows:

	Available-for-sale securities	Held-to-maturity securities
Balances at January 1, 2017	56,526,834	663,818,911
Additions	6,854,603	79,642,004
Disposals	(2,148,775)	-
Maturities	(26,081,788)	(55,417,600)
Fair value adjustment	2,288,328	-
Foreign currency revaluation	28,188	557,330
Amortization of bond discount, net	-	939,879
Balances at December 31, 2017	37,467,390	689,540,524
Additions	32,488,765	160,679,880
Disposals	(491,128)	-
Maturities	-	(72,495,296)
Fair value adjustment	(3,298,377)	-
Foreign currency revaluation	(618)	15,544,475
Amortization of bond discount, net	-	177,867
Balances at December 31, 2018	66,166,032	793,447,450

Proceeds from the disposals and maturities of available-for-sale securities amount to P418,642 (2017 - P27,156,385). Loss on sale of available-for-sale securities for the year ended December 31, 2018 amounts to P72,486 (2017 - P1,074,178).

As at December 31, 2018, available-for-sale securities include debt securities of P41,140,998 (2017 - P10,916,261).

Dividend income on equity securities recognized in the statement of total comprehensive income amounts to P1,260,232 for the year ended December 31, 2018 (2017 - P1,171,747).

As at December 31, held-to-maturity securities are as follows:

	2018	2017
Debt securities		
US Dollar	287,267,452	245,870,775
Philippine Peso	259,024,500	260,368,816
Corporate bonds	92,700,000	51,000,000
Time deposits	153,371,161	130,756,960
	792,363,113	687,996,551
Unamortized bond premiums, net	1,084,337	1,543,973
	793,447,450	689,540,524

Debt securities are in the form of treasury bonds and notes.

The Company's held-to-maturity securities earn interest rates (in %) as follows:

	2018	2017
Debt securities		
Philippine Peso	3.25 - 7.88	2.42 - 7.80
US Dollar	2.97 - 7.23	2.75 - 7.23
Corporate bonds	4.00 - 7.82	2.38 - 6.80
Time deposits	0.125 - 5.5	0.45 - 2.50

Interest income earned from held-to-maturity securities is presented in Note 12.

The maturity profile of the Company's held-to-maturity securities are as follows:

	2018	2017
Short-term (within one year)	132,375,666	149,344,228
Medium-term (more than one year to five years)	491,921,526	282,623,601
Long-term (more than five years)	169,150,258	257,572,695
	793,447,450	689,540,524

As at December 31, 2018, government securities, classified as held-to-maturity securities with face amount of P238,024,500 (2017 - P226,129,500) are deposited with the IC in accordance with the provisions of the Insurance Code for the benefit of policyholders and creditors of the Company.

Note 6 - Insurance liabilities and reinsurance assets

The account at December 31 consists of:

	2018	2017
Reserve for outstanding losses		
Reported claims	361,061,477	260,040,267
Incurred but not yet reported (IBNR) claims, gross of reinsurance	4,090,504	2,470,000
Losses and claims payable	365,151,981	262,510,267
Reserve for unearned premiums	276,135,347	282,608,557
Total insurance liabilities	641,287,328	545,118,824
Reinsurance recoverable on unpaid losses	236,036,746	141,516,990
Deferred reinsurance premiums	114,981,269	109,698,944
Total reinsurance assets	351,018,015	251,215,934
Insurance liabilities, net	290,269,313	293,902,890

The maturity profile of the Company's insurance liabilities is discussed in Note 20.2.3.

The movements in these insurance liabilities and reinsurance assets are shown below:

Losses and claims payable, net

(Amounts in thousands)	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Reported claims	260,040	141,517	118,523	287,466	178,504	108,962
IBNR claims	2,470	-	2,470	6,399	-	6,399
Balances at January 1	262,510	141,517	120,993	293,865	178,504	115,361
Claims and loss adjustment expenses						
Cash paid for claims settled during the year	302,539	136,266	166,273	237,875	86,523	151,352
Increases in liabilities arising from current year claims	(199,897)	(41,746)	(158,151)	(269,230)	(123,510)	(145,720)
	102,642	94,520	8,122	(31,355)	(36,987)	5,632
Balances at December 31	365,152	236,037	129,115	262,510	141,517	120,993

The Company utilizes reinsurance agreements to minimize its exposure to large losses in all aspects of its insurance business. Reinsurance permits recovery of a portion of losses from the reinsurer. However, it does not discharge the primary liability of the Company as direct insurer of the risk reinsured.

As discussed in Note 21.7.8, the Company sells damaged property (salvage) or pursues third parties for some or all of the costs (subrogation). These are deducted from claims and losses. The Company's total salvage and subrogation reimbursements for the year ended December 31, 2018 amount to P5,880,097 (2017 - P3,483,434).

Movements in reserve for unearned premiums, net at December 31 follow:

(Amounts in thousands)	2018			2017		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
At January 1	282,609	109,699	172,910	258,687	103,589	155,098
Increase (decrease) during the year	(6,474)	5,282	(11,756)	23,922	6,110	17,812
At December 31	276,135	114,981	161,154	282,609	109,699	172,910

Movements in deferred acquisition costs, net at December 31 follow:

	2018	2017
At January 1	77,325,969	88,925,500
Costs deferred during the year	86,225,114	77,325,969
Amortization during the year	(77,325,969)	(88,925,500)
At December 31	86,225,114	77,325,969

Amortization of deferred acquisition costs is presented as part of commissions and other underwriting expenses in the statement of total comprehensive income.

Note 7 - Investment property, net

The movements of the account are as follows:

	Land	Condominium units and parking lots	Total
Cost			
Balances at December 31, 2017 and 2018	2,288,822	43,890,250	46,179,072
Accumulated depreciation			
Balances at January 1, 2017	-	24,339,141	24,339,141
Depreciation	-	1,755,610	1,755,610
Balances at December 31, 2017	-	26,094,751	26,094,751
Depreciation	-	1,755,610	1,755,610
Balances at December 31, 2018	-	27,850,361	27,850,361
Net book value			
December 31, 2017	2,288,822	17,795,499	20,084,321
December 31, 2018	2,288,822	16,039,889	18,328,711

Rental income derived from these properties for the year ended December 31, 2018 amounts to P6,381,518 (2017 - P5,716,209). Expenses incurred in relation to the Company's investment properties amount to P1,272,003 for the year ended December 31, 2018 (2017 - P1,095,938) and reported as part of association dues in the statement of total comprehensive income.

Investment properties consist of land and four (4) condominium units located in Makati City and one (1) office condominium in Pasig City. The total fair market value of the real properties is P102,872,822 at December 31, 2018 (2017 - P93,132,822), based on the latest appraisal report submitted by an independent asset valuation expert.

The above fair value fall under Level 2 of the fair value hierarchy.

Note 8 - Property and equipment, net

The account at December 31 consists of:

	Building	EDP equipment	Leasehold improvements	Transportation equipment	Furniture, fixture and office equipment	Total
COST						
At January 1, 2017	25,510,250	2,874,188	7,677,855	7,372,126	4,011,711	47,446,130
Additions	-	442,876	1,695,126	58,482	65,013	2,261,497
Disposals	-	(1,095,816)	-	(2,442,417)	(35,755)	(3,573,988)
At December 31, 2017	25,510,250	2,221,248	9,372,981	4,988,191	4,040,969	46,133,639
Additions	-	646,744	-	-	45,268	692,012
Disposals	-	(345,230)	-	-	(195,472)	(540,702)
At December 31, 2018	25,510,250	2,522,762	9,372,981	4,988,191	3,890,765	46,284,949
ACCUMULATED DEPRECIATION						
At January 1, 2017	20,806,395	1,616,492	5,306,848	3,421,817	1,752,362	32,903,914
Depreciation and amortization	940,740	511,994	1,154,762	1,409,670	608,080	4,625,246
Disposals	-	(1,095,816)	-	(2,442,417)	(35,755)	(3,573,988)
At December 31, 2017	21,747,135	1,032,670	6,461,610	2,389,070	2,324,687	33,955,172
Depreciation and amortization	940,740	467,562	1,176,334	997,639	600,036	4,182,311
Disposals	-	(345,230)	-	-	(195,472)	(540,702)
At December 31, 2018	22,687,875	1,155,002	7,637,944	3,386,709	2,729,251	37,596,781
NET BOOK VALUE						
December 31, 2017	3,763,115	1,188,578	2,911,371	2,599,121	1,716,282	12,178,467
December 31, 2018	2,822,375	1,367,760	1,735,037	1,601,482	1,161,514	8,688,168

In 2018, the Company derecognized certain fully depreciated assets with cost amounting of P540,702.

In 2017, the fully depreciated properties and equipment were sold at P4,464. The proceeds from such sale were considered as gain on sale of property and equipment which is included as part of miscellaneous income in the statement of total comprehensive income.

Depreciation and amortization for the year is included as part of occupancy and equipment-related costs in the statement of total comprehensive income.

Note 9 - Deferred income taxes, net

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

	2018	2017
Deferred income tax assets		
Reserve for unearned premiums, net	48,346,223	51,872,884
Retirement benefit obligation	2,894,015	1,888,321
IBNR	1,227,151	741,000
Unrealized fair value loss in available-for-sale securities	(338,758)	(1,328,272)
Allowance for impairment	465,900	465,900
Total deferred income tax assets	52,594,531	53,639,833
Deferred income tax liabilities		
Deferred acquisition cost, net	25,867,534	23,197,791
Accrued rental income	-	440,750
Unrealized foreign exchange gain	5,185,555	10,917
Total deferred income tax liabilities	31,053,089	23,649,458
Deferred income tax assets, net	21,541,442	29,990,375

The movements in the deferred income tax account at December 31 are summarized as follows:

	2018	2017
At January 1	29,990,375	20,031,573
Amounts (charged) credited to profit or loss	(10,343,448)	11,763,692
Amounts credited (charged) to other comprehensive income	1,894,515	(1,804,890)
At December 31	21,541,442	29,990,375

The deferred tax charged (credited) to profit or loss comprises the following temporary differences at December 31:

	2018	2017
Reserve for unearned premium	(3,526,661)	5,343,334
Unrealized foreign exchange gain	(5,174,638)	4,710,249
Retirement benefit obligation	100,693	(150,330)
IBNR	486,151	(1,178,670)
Deferred acquisition cost	(2,669,743)	3,479,859
Accrued rental income	440,750	(440,750)
	(10,343,448)	11,763,692

The analysis of the recoverability and settlement of deferred income tax assets and liabilities at December 31 is as follows:

	2018	2017
Deferred income tax assets		
Expected to be recovered within 12 months	49,700,516	51,751,512
Expected to be recovered beyond 12 months	2,894,015	1,888,321
	52,594,531	53,639,833
Deferred income tax liabilities		
Expected to be settled within 12 months	31,053,089	23,649,458
Deferred income tax assets, net	21,541,442	29,990,375

Note 10 - Accounts payable and other liabilities

The account at December 31 consists of:

	Notes	2018	2017
Accounts payable		34,393,850	25,377,096
Deferred output VAT		9,572,350	10,701,814
Taxes payable		8,553,509	31,036,438
Dividend payable	11	8,384,912	23,259,912
Retirement benefit obligation	14	8,281,617	4,656,284
Miscellaneous fees payable		5,397,953	5,214,337
Accrued expenses		2,962,679	1,412,491
Others		874,588	955,748
		78,421,458	102,614,120

Taxes payable is comprised of documentary stamp taxes payable, output value-added tax (VAT), withholding taxes payable and local and national taxes due.

Accounts payable includes overpayment of premium receivables.

Miscellaneous fees payable pertains to amounts collected from motor car insurance holders for compulsory third party liability, and authentication and other registration costs to Land Transportation Office which will be subsequently paid to the appropriate agencies.

Other liabilities pertain mainly to employee-related benefit payables such as contributions to SSS, Philhealth and HDMF.

As at December 31, 2018 and 2017, all of the accounts payable and other liabilities are due within one year, except for retirement benefit obligation. The terms for payment arrangements of the Company's retirement benefit obligation are disclosed in Note 14.

Note 11 - Share capital

Details of the account at December 31, 2018 and 2017 follow:

	Number of shares	Amount
Authorized, at P100 par value per share	4,000,000	400,000,000
Issued and outstanding	3,500,000	350,000,000

Contributed surplus represents additional capital contribution from shareholders to demonstrate the commitment and strong support of shareholders to the local operations. Such amount is presented as part of contributed surplus in accordance with the guidelines of the IC.

As discussed in Note 20.4, the Company is subject to externally imposed capital requirement by the IC.

Retained earnings

As at December 31, 2018 and 2017, the Company has excess retained earnings over its paid-up capital.

In 2008, the SEC issued Memorandum Circular No. 11 providing the guidelines in determining the appropriate amount of retained earnings available for dividend distribution taking into consideration the effective accounting standards and rules of the SEC. Stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-in capital.

On January 24, 2013, SEC issued Financial Reporting Bulletin No. 14, *Reconciliation of Retained Earnings Available for Dividend Declaration*, which prescribed adjustments as indicated in Annex 68-C of SRC Rule 68.

BIR Revenue Regulations No. 2-2001 provides that insurance companies are exempted from the 10% improperly accumulated earnings tax imposed on improperly accumulated taxable income.

Section 201 of the amended Code provides that no domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements of the amended Code.

As at December 31, 2018, the Company plans to retain the excess retained earnings over its paid up capital of P201,962,999 (2017 - P122,313,427) for the following:

- As an additional reserve for future contingencies, especially for catastrophe losses;
- To comply with the more robust Risk Based Capital ("RBC") and reserving requirements implemented by the IC effective January 1, 2017.

Management will continue to evaluate the plans to retain the excess retained earnings over its paid-up capital after considering the amended regulatory capital requirements of the IC on fixed capitalization and RBC2 framework.

Cash dividend (Note 10)

- In 2012, the Company declared P10 million cash dividend to its shareholders which was settled partially in 2013. As at December 31, 2018 and 2017, dividends payable amounting to P3,065,188 remained outstanding.
- In 2013, the Company declared another cash dividend amounting to P17.5 million (P5.00 per share) to its shareholders which was settled partially in 2014. As at December 31, 2018 and 2017, dividends payable amounting to P710,622 remained outstanding.
- In 2014, the Company declared P15 million cash dividend (P5.00 per share) to its shareholders which was partially settled in 2016. As at December 31 2018 and 2017, dividends payable amounting to P759,102 remained outstanding.
- In 2015, the Company declared P17.5 million cash dividend to its shareholder which was partially settled in 2015. As at December 31, 2018 and 2017, dividends payable amounting to P1,225,000 remained outstanding.
- In 2017, the Company declared P17.5 million cash dividend to its shareholders which is due to be settled in 2018. As at December 31, 2018, dividends payable amounting to P2,625,000 remained outstanding (2017 - P17.5 million).

Movements in accumulated other comprehensive (loss) income as at December 31 are as follows:

	2018	2017
At January 1	2,237,809	2,763,995
Net change in fair value of available-for-sale securities	(2,308,864)	(223,299)
Actuarial losses on retirement benefit obligation, net of tax	(2,111,672)	(302,887)
At December 31	(2,182,727)	2,237,809

Note 12 - Interest income

Details of interest income for the years ended December 31 are as follows:

	2018	2017
Cash and cash equivalents	5,343,186	5,072,970
Held-to-maturity securities		
Treasury bonds and notes		
US Dollar	11,479,119	12,712,322
Philippine Peso	11,145,645	10,390,887
Corporate bonds	3,729,322	2,734,398
Time deposits	3,459,958	3,206,001
Available-for-sale securities		
Treasury bonds	-	829,362
	35,157,230	34,945,940

Note 13 - Salaries and employee benefits

The details of the account for the years ended December 31 are as follows:

	Note	2018	2017
Salaries and wages		30,039,042	28,378,030
Allowance and bonuses		6,490,015	5,428,180
Retirement benefit expense	14	2,608,659	2,522,774
Social security contributions		1,452,147	1,412,910
Other employee benefits		2,237,870	574,184
		42,827,733	38,316,078

Note 14 - Retirement benefit obligation

The Company has a funded, non-contributory defined benefit plan providing death, disability, and retirement benefits for all its employees. The fund is being managed and administered by a financial institution on the basis of a duly executed trust agreement and governed by local regulations in the Philippines. Under the plan, qualified officers and employees are entitled to retirement benefits when they reach the normal retirement age of 60 years with an option for early retirement at 50 years of age provided that they have complete at least 10 years of continuous service. Normal and early retirement benefits consist of a lump sum benefit equivalent to one month's final pay for every year of service. The plan also provides late retirement, death, disability and voluntary separation benefits.

The Company's obligation under defined benefit plan may significantly vary depending on a number of market, economic and demographic conditions, such as yields on government debt, return on plan assets invested in debt and equity securities as well as pooled funds, employee turnover and retiree mortality rates.

These risk factors may affect the Company's future cash outflows to fund its obligation, amounts of periodic benefit cost used in calculating net profit and rereasurement charges reported in other comprehensive income.

Following are the amounts based on the latest actuarial valuation as at December 31, 2018 and 2017 using the projected unit cost method.

Retirement benefit expense recognized as part of salaries and employee benefits in the statement of total comprehensive income for the years ended December 31 is as follows:

	2018	2017
Retirement benefit cost recognized in profit or loss		
Current service cost	2,346,044	2,282,794
Net interest cost	262,615	239,980
	2,608,659	2,522,774
Retirement benefit cost recognized in other comprehensive income, gross of tax		
Remeasurement loss - retirement benefit obligation	494,523	173,969
Remeasurement loss - plan assets	2,522,151	835,653
	3,016,674	1,009,622

Retirement benefit obligation included as part of accounts payable and other liabilities recognized in the statement of financial position as at December 31 is determined as follows:

	2018	2017
Present value of defined benefit obligation	46,253,983	41,807,834
Fair value of plan assets	(37,972,366)	(37,151,550)
Retirement benefit obligation	8,281,617	4,656,284

The movements in the present value of defined benefit obligation during the years ended December 31 are as follows:

	2018	2017
Beginning of year	41,807,834	37,648,414
Current service cost	2,346,044	2,282,794
Interest cost	2,357,962	1,953,953
Remeasurements		
Effect of changes in financial assumptions	(99,704)	(69,044)
Experience adjustments	594,227	243,013
Benefits paid	(752,380)	(251,296)
End of year	46,253,983	41,807,834

The movements in the fair value of plan assets at December 31 are as follows:

	2018	2017
Beginning of the year	37,151,550	33,024,526
Contributions	2,000,000	3,500,000
Interest income	2,095,347	1,713,973
Remeasurement		
Return on plan assets, excluding amount recognized as interest	(2,522,151)	(835,653)
Benefits paid	(752,380)	(251,296)
End of year	37,972,366	37,151,550

The Company has no transactions with the plan other than the contributions and benefit payments presented above for the years ended December 31, 2018 and 2017.

The details of the plan assets at December 31 are as follows:

	2018	2017
Mutual funds and unit investment trust funds	37,040,370	36,200,767
Short-term deposits	1,000,000	1,000,000
Cash	670	78
Trustee fee payable	(68,674)	(49,295)
	37,972,366	37,151,550

The carrying value of plan assets as at December 31, 2018 and 2017 is the same as its fair value. There are no plan assets invested in debt or equity securities of the Company or its related entity.

The movements in the reserve for actuarial (losses) gains on pension liability, net of tax, presented within equity for the years ended December 31 are as follows:

	2018	2017
Beginning of the year	(1,230,701)	(221,079)
Remeasurement loss - retirement benefit obligation	(494,523)	(173,969)
Remeasurement loss - plan assets	(2,522,151)	(835,653)
Total	(4,247,375)	(1,230,701)
Deferred tax liability effect	1,274,212	369,210
End of year	(2,973,161)	(861,491)

The principal actuarial assumptions used in determining the retirement benefit obligation for the years ended December 31 are shown below:

	2018	2017
Discount rate	7.36%	5.64%
Salary increase rate	5.00%	4.00%

Discount rate

The discount rate was determined in accordance with the PIC - approved Q&A 2008-01(Revised), which mandates that discount rates reflect benefit cash flows and use of zero coupon rates, even though theoretically derived.

The reinvestment method was applied to the PDST-R2 benchmark government bonds to arrive at the theoretical zero coupon yield curve. These derived rates were then used to compute the present value of the expected future benefit cash flows across valuation years.

Finally, the single-weighted discount rate was calculated as the uniform discount rate that produced the same present value.

Future salary increases

This is the expected long-term average rate of salary increase taking into account inflation, seniority, promotion and other market factors. Salary increases comprise of the general inflationary increases plus a further increase for individual productivity, merit and promotion. The future salary increase rates are set by reference over the period over which benefits are expected to be paid.

Demographic assumptions

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

The defined benefit plan typically exposes the Company to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risks. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Company. However, the Company believes that due to the long-term nature of the retirement benefit liability and the strength of the Company itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Company's long term strategy to manage the plan efficiently.

The Company ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Company's main objective is to match assets to the defined benefit obligation by investing primarily long-term debt securities which offer the best returns over the long term with an acceptable level of risk. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustee bank, as necessary to better ensure the appropriate asset-liability matching.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The expected contribution for the year ending December 31, 2019 amounts to P4,841,832 (2018 - P3,631,068)

Weighted average duration of the retirement benefit obligation is 20 years.

The projected maturity analysis of undiscounted retirement benefit payments as at December 31 is as follows:

	2018	2017
Less than 1 year	14,170,995	11,959,862
1 to 5 years	10,234,269	4,224,030
6 to 10 years	21,985,064	22,024,800
11 to 20 years	30,248,661	18,062,730
Over 20 years	204,428,389	139,549,768

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions for the years ended December 31 is as follows:

2018	Change in assumption	Impact on pension liability	
		Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by P51,255	Increase by P64,451
Salary increase rate	1.00%	Increase by P150,499	Decrease by P96,312

2017	Change in assumption	Impact on pension liability	
		Increase in assumption	Decrease in assumption
Discount rate	0.50%	Decrease by P63,151	Increase by P78,009
Salary increase rate	1.00%	Increase by P198,595	Decrease by P113,626

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized within the statement of financial position.

Note 15 - Provision for income tax

Provision for income tax for the years ended December 31 follows:

	Note	2018	2017
Current		21,182,946	24,935,030
Deferred	9	10,343,448	(11,763,692)
		31,526,394	13,171,338

Current tax expense for the year ended December 31, 2018 includes final tax amounting to P5,628,834 (2017 - P4,511,314).

A reconciliation of the provision for income tax computed at the statutory rate to the actual provision for income tax for the years ended December 31 follows:

	2018	2017
Income before income tax	111,175,966	63,350,981
Income tax calculated at 30%	33,352,790	19,005,294
Income subject to final tax rate, net	(1,474,599)	(5,972,467)
Tax-exempt income	(356,324)	(29,271)
Non-deductible expenses	4,527	167,782
Actual provision for income tax	31,526,394	13,171,338

Note 16 - Cash generated from operations

The details of cash generated from operations for the years ended December 31 are as follows:

	Notes	2018	2017
Income before income tax		111,175,966	63,350,981
Adjustments for:			
Unrealized foreign exchange gain	20	(17,285,182)	(36,392)
Depreciation	7,8	5,937,921	6,380,856
Loss on sale of available-for-sale securities	5	72,486	1,074,178
Gain on sale of property and equipment	8	-	(4,464)
Retirement benefit expense	14	2,608,659	2,522,774
Interest income	12	(35,157,230)	(34,945,940)
Dividend income	5	(1,260,232)	(1,171,747)
Operating income before changes in operating assets and liabilities		66,092,388	37,170,246
Changes in operating assets and liabilities (Increase) decrease in:			
Receivables, net		(4,862,554)	(11,450,643)
Reinsurance recoverable on unpaid losses		(94,519,756)	36,987,361
Deferred reinsurance premiums		(5,282,325)	(6,110,003)
Deferred acquisition costs, net		(8,899,145)	11,599,531
Other assets		(928,906)	1,745,530
Increase (decrease) in:			
Losses and claims payable		102,641,714	(31,354,227)
Reserve for unearned premiums		(6,473,210)	23,921,118
Due to reinsurers and ceding companies		29,478,055	21,350,289
Funds held for reinsurers		5,861,084	4,043,786
Commissions payable		8,182,474	(13,595,540)
Accounts payable and other liabilities		(12,942,994)	7,996,089
Cash generated from operations		78,346,825	82,303,537

Note 17 - Related party transactions

In the ordinary course of business, the Company cedes reinsurance businesses under various reinsurance contracts (mainly treaty) with its related reinsurance companies.

Premiums paid to related party reinsurers are booked as reinsurance premiums ceded in profit or loss and the related payables are included as part of due to reinsurers and ceding companies in the statement of financial position. Commissions out of these reinsurance transactions are included as part of commissions earned and any outstanding uncollected commissions are offset with due to reinsurers and ceding companies.

The share of the related party reinsurer in incurred losses is included as part of reinsurance recoverable on unpaid losses or reinsurance recoverable on paid losses under net receivables in the statement of financial position.

Outstanding balances under treaty and facultative contracts with such related parties as at December 31 are as follows:

	2018	2017	Terms and conditions
Shareholders			
Reinsurance recoverable on paid losses	15,339,464	14,916,892	- Unsecured and unguaranteed - Non-interest bearing - Collectible in cash within 15 days after reinsurer's confirmation
Reinsurance recoverable on unpaid losses	4,768,113	4,809,706	- Unsecured and unguaranteed - Non-interest bearing - Collectible in cash within 15 days after reinsurer's confirmation
	20,107,577	19,726,598	
Due to reinsurers and ceding companies	(21,053,133)	(20,803,696)	- Unsecured and unguaranteed - Non-interest bearing - Payable in cash within 15 days after reinsurer's confirmation
Funds held for reinsurers	(931,088)	(882,394)	- Unsecured and unguaranteed - Non-interest bearing - Payable in cash within one year after the end of the quarter
	(21,984,221)	(21,686,090)	
	(1,876,644)	(1,959,492)	

Transactions under treaty and facultative contracts with such related parties for the years ended December 31 are as follows:

	2018	2017	Terms and conditions
Shareholders			
Reinsurance premiums ceded	2,522,877	2,205,986	- Represents premiums ceded out to reinsurers - Unsecured and unguaranteed - Due and demandable - Payable in cash at net amount
Losses and claims	1,015,775	1,247,047	- Represents share of reinsurers in incurred loss - Unsecured and unguaranteed - Due and demandable - Payable in cash at gross amount
Commissions earned	579,954	487,593	- Represents commissions earned from reinsurance - Unsecured and unguaranteed - Due and demandable - Payable in cash at net amount
	4,118,606	3,940,626	

The following table shows the transactions of the Company with its retirement fund for the years ended December 31:

	2018	2017	Terms and conditions
Contribution to the retirement fund	(2,000,000)	(3,500,000)	- Represents contributions made and benefits paid by the Company to and from its retirement fund
Benefits paid from the retirement fund	(752,380)	(251,296)	

The table below shows transactions and outstanding balances with the Company's key management personnel as at and for the years ended December 31:

	2018		2017		Terms and conditions
	Transactions	Outstanding Balance	Transactions	Outstanding Balance	
Advances	7,277,000	12,178,177	4,160,338	9,929,733	<ul style="list-style-type: none"> - Secured and guaranteed up to the amount of the officer's retirement benefit - Interest-bearing at 8% per annum - Collectible in cash over a period of one year or more through salary deduction
Salaries and other benefits	10,958,151	-	10,871,360	-	<ul style="list-style-type: none"> - Represents salaries and other benefits paid to key management personnel during the year - No provisions for termination, post-employment and other long-term benefits for key management personnel, except for such benefits to which they are entitled under the Company's retirement plan
Directors' fees	410,237	-	244,200	-	<ul style="list-style-type: none"> - Fees paid to directors during the year which are settled during the Board of Directors meeting

Note 18 - Contingencies

In the ordinary course of business, the Company, as plaintiff, is currently pursuing a number of collection-related cases against certain customers. Any asset or income arising from the ultimate resolution of these cases will be recognized when actual settlement is received or when collection is virtually certain.

Note 19 - Critical accounting estimate, assumptions and judgments

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimate, assumptions and judgments that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

19.1 Critical accounting estimate and assumptions

Liability arising from claims made under insurance contracts (Note 6)

Management makes the best estimate of its insurance liability at reporting date using the adjuster's report and other available information relating to claims. However, there are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The major uncertainties are the frequency of claims due to the contingencies covered and the timing of benefit payments (Note 20.1).

The Company considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the ultimate liability arising from claims made under insurance contracts as the major uncertainties may differ significantly. With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next reporting period that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected including reserve for outstanding losses and related insurance balances.

The carrying value of losses and claims payable as at December 31, 2018 amounts to P365,151,981 (2017 - P262,510,267). IBNR claims, gross of reinsurance, as at December 31, 2018 amount to P4,090,504 (2017 - P2,470,000). Net losses and claims for the year ended December 31, 2018 amount to P174,394,950 (2017 - 156,984,949).

Unexpired risk reserves ("URR")

The Company calculates for the URR at 75th level percentile of sufficiency using the best estimate of future claims and expenses for all classes of business, including margin for adverse deviation to address uncertainty in the estimate of unexpired risks. In order to arrive at the URR, the Unearned Premium Reserve ("UPR") for each class of business is multiplied by the expected loss ratio, adjusted for future expenses and Margin for Adverse Deviation ("MfAD").

The expected future claims include all claims which might occur during the unexpired period including: claims which are reported after the end of the unexpired exposure period, but have occurred within the unexpired exposure period; and claims which are reopened at any date, but have occurred within the unexpired exposure period. The expected future expenses include estimates of claims expenses and general policy maintenance expenses based on actual historical experience. The claims expense ratio is being applied to the gross unexpired risk reserves while the policy maintenance expense ratio is applied on the provision for unearned premiums.

The process of establishing liability estimates is subject to considerable variability as it requires the use of informed estimates and judgments. These estimates and judgments are based on numerous factors, and may be revised as additional experience becomes available or as regulations change. The Company takes all reasonable steps to ensure that it has appropriate information regarding its unexpired risk exposures.

Following the requirements of CL 2018-18, the Company's premium liabilities are based on the UPR values as at December 31, 2018 and 2017, as the UPR is significantly higher based on the assessment made by management. As such, the Company no longer presented the necessary sensitivities related to URR.

Estimated useful lives (EUL) of assets (Notes 7 and 8)

The useful life of each of the Company's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded operating expenses and decrease the carrying value of non-financial assets.

The sensitivity of depreciation expense to changes in estimated useful life of property and equipment as at December 31 follows:

	2018	2017
Increase by 10%	(160,552)	(445,748)
Decrease by 10%	196,230	544,803

The carrying value of the Company's property and equipment as at December 31, 2018 amounts to P8,688,168 (2017 - P12,178,467).

The Company reviews annually the EUL of the investment properties based on expected asset utilization and market behavior. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned.

The sensitivity of depreciation expense to changes in estimated useful life of investment properties as at December 31 follows:

	2018	2017
Increase by 10%	(64,711)	(71,095)
Decrease by 10%	79,091	86,894

The carrying value of investment properties amounts to P18,328,711 as at December 31, 2018 (2017 - P20,084,321).

Measurement of retirement benefit obligation (Note 14)

The determination of the Company's retirement benefit obligation at reporting date is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

In determining the appropriate discount rate, the Company considers the market yield of government bonds with terms to maturity approximating the terms of the retirement benefit obligation as well as the expected rate of return on plan assets based on the average historical earnings of the fund assets.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. Other key assumptions for retirement benefit obligation are based in part on current market conditions.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect pension and other retirement obligations and employee benefits.

The sensitivity analyses for the significant actuarial assumptions are disclosed in Note 14.

19.2 Critical accounting judgments

Recoverability of receivables (Note 4)

The Company reviews its receivables at each reporting date to assess whether an allowance for impairment or write-off should be recorded. In these cases, management uses judgment based on the best available facts and circumstances, including but not limited to, the length of relationship with the counterparty and the counterparty's payment history. These also include factors, such as, but not limited to, age of balances and financial status of the counterparty. The amount and timing of recorded impairment losses for any period would therefore differ based on the judgments made. Based on management's assessment, there is no provision needed to be recognized on the Company's receivables for the years ended December 31, 2018 and 2017. Management did not identify any indications that these receivables will not be recovered.

Net receivables of the Company amounts to P248,949,320 as at December 31, 2018 (2017 - P242,000,629). Allowance for impairment remained at P1.6 million as at December 31, 2018 and 2017.

Impairment of available-for-sale and held-to-maturity securities (Note 5)

The Company determines that available-for-sale securities are impaired when there has been a significant or prolonged decline in the fair value below its cost for equity securities. For debt securities classified as available-for-sale and held-to-maturity, the Company first assesses at each reporting date whether an objective evidence of impairment exists. A financial asset or group of financial asset is impaired and impairment losses are incurred only if there is an objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The determination of what is significant or prolonged decline or objective evidence of impairment requires judgment (Note 21.3.4). Impairment may be appropriate when there is an evidence of deterioration in the financial health and near-term business outlook of the investee or issuer, including factors such as industry and sector performance, changes in technology, and financing and operational cash flows.

As at December 31, 2018 and 2017, the Company believes, based on its assessment, that there is no required impairment on its available-for-sale and held-to-maturity securities.

Impairment of non-financial assets (Notes 7 and 8)

The Company's property and equipment and investment property are carried at cost less accumulated depreciation and amortization and impairment losses, if any. The carrying value is reviewed and assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Changes in those judgments could have a significant effect on the carrying value of property and the amount and timing of recorded provision for any period.

As at December 31, 2018 and 2017, management believes, based on its assessment, that there are no indications of impairment or changes in circumstances indicating that the carrying value of its property and equipment and investment property may not be recoverable.

Classification to held-to-maturity securities (Note 5)

The Company follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity. If the Company fails to keep these investments to maturity other than for the specific circumstances (for example, selling an insignificant amount close to maturity) it will be required to reclassify the entire class as available-for-sale securities. The investments would therefore be measured at fair value and not at amortized cost.

If the entire class of held-to-maturity investments is tainted, the carrying amount of investment would decrease by P29,297,173 (2017 - P295,630), as a result of the fair value adjustment, with a corresponding entry in reserve for available-for-sale securities in the equity section of the statement of financial position.

Provision for income tax and recoverability of deferred income tax assets (Notes 9 and 15)

Significant judgment is required in determining the income tax expense. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business.

The Company recognizes liabilities based on careful evaluation of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the Company's current and deferred income tax provisions in the period in which such determination is made. Further, recognition of deferred income taxes depends on management's assessment of the probability of available future taxable income against which the temporary difference can be applied. The components of deferred income tax are shown in Note 9.

The Company reviews at each reporting date the carrying amounts of DIT assets. The carrying amount of DIT assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied. The Company believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

Based on management's assessment and judgment, income tax expense for the year ended December 31, 2018 amounting to P31,526,394 (2017 - P13,171,338) is reasonable.

Net deferred income tax assets amount to P21,541,442 as at December 31, 2018 (2017 - P29,990,375).

Note 20 - Insurance and financial risk and capital management

This section summarizes the Company's insurance and financial risks and the way the Company manages them, including the Company's capital management objectives.

20.1 Insurance risk

Insurance is a form of contract whereby periodic payments (also known as insurance premiums) are made to an insurance company, in order to provide an individual or business compensation in the event of property loss or damage. The risk under any one insurance contract is the uncertainty about an unfavorable outcome in a given situation. Insurance risk is an uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

The principal risk the Company is facing under insurance contracts is when the actual claims and benefit payments exceeds the carrying amount of the insurance liabilities. This could happen when there are numerous claims that occur in a particular period and the actual payment exceeds the estimated amount.

Factors that aggravate insurance risk include reduction in rates of premium, geographical location, and type of industry covered. One way of reducing insurance risk is by transfer and sharing of risk.

The Company has developed its insurance underwriting strategy to expand the type of insurance risk accepted in order to attain premium income growth and above-average underwriting profit.

20.1.1 Casualty insurance contracts

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. Estimated inflation is a significant factor due to the long period typically required to settle these cases. Another factor is the political and economic stability of the country which could result to numerous theft claims. The Company manages these risks through its well-designed underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography in order to spread possible losses fairly between the Company (retention) and the reinsurers.

Management continues to review the loss experience and premium payment record of existing agencies to identify and weed out the bad agencies and motivate the good agencies to produce more business.

Sources of uncertainty in the estimation of future claim payments

The claims outstanding provision is the estimated ultimate cost of all claims and the related claims handling expenses in respect of events up to the accounting date less amounts already paid.

The provision will relate to all events that have occurred up to the accounting date, whether or not the Company has been notified of the claims in question before the close of the accounting period. The latter category of claims is referred to as IBNR claims.

It is impossible for an insurance company to predict its outstanding claims provision with 100% accuracy. If understated, the Company may distribute assets or otherwise act in a way that could lead to severe financial problems, and possible insolvency, when claims come to be paid.

The provision for reported and IBNR claims are the Company's estimate of the amount which it will have to pay at reporting date.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures.

20.1.2 Property insurance contracts

Frequency and severity of claims

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, flooding, typhoons, etc.) and their consequences.

Cost of rebuilding properties, replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage.

The Company has the right to reprice the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Moreover, it has the right not to accept a certain risk by not engaging in any form of hazardous enterprise at all. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event.

Sources of uncertainty in the estimation of future claims payments

Risk continue to be concentrated in the property business, particularly on the motor line. Treaty cession limits and underwriting strategies are being implemented to protect the Company and reinsurers from high exposures to possible losses. Property claims are analyzed separately for its exposures and risk accumulation. This is estimated within the definition of the crest zone exposures. The shorter settlement period for these claims allows the Company to achieve a higher degree of certainty about the estimated cost of claims.

20.1.3 Marine insurance contracts

Frequency and severity of claims

All marine insurance policies issued are covered by the Company's reinsurance program. The Company sees to it that the name of the vessel is stated to determine whether the vessel is acceptable and to ensure that it is insuring a shipment that is loaded in a sea worthy vessel.

Sources of uncertainty in the estimation of future claims payments

For marine claims, it is the marine adjusters who make valuations and recommendations for the estimated loss reserves including direct expenses, subrogation value and recoveries that will be incurred in settling the claims. The Company sees to it that the underwriting guidelines in accepting a marine risk is being implemented to mitigate exposure to an amount which is beyond the Company's capacity to write involving one vessel.

20.1.4 Motor insurance contracts

Frequency and severity of claims

Motor insurance contracts are underwritten by placing underwriting limits to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (i.e., subrogation). All motor insurance policies issued are covered by a reinsurance program.

Sources of uncertainty in the estimation of future claim payments

Claims on motor insurance contracts are payable on a claims occurrence and claims made basis. The Company is liable for all insured events that occurred during the term of the contract.

The Company makes valuations and recommendations for the estimated loss reserves which include direct expenses to be incurred in settling claims, the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The Actuary provides reasonable estimates of the ultimate cost of claims using the Company's past experience and recognized estimation techniques.

20.1.5 New valuation standards for insurance liabilities beginning January 1, 2017

On December 28, 2016, the IC, through its CL No. 2016-67, issued the New Valuation Standard for Insurance Policy Reserve with effect beginning January 1, 2017 and onwards. Among others, the New Valuation Standard for Insurance Policy Reserve provides for:

- (i) the determination of premium liabilities based on the higher of UPR and the URR;
- (ii) consideration of the claims handling expense ("CHE");
- (iii) consideration of MfAD to allow for inherent uncertainty of the best estimate of policy reserve; and,
- (iv) certification of an actuary on the calculation of the insurance policy reserve in accordance with the said new valuation standards.

Beginning January 1, 2017, the initial year of implementation of the New Valuation Standard for Insurance Policy Reserve, the IC through its CL 2016-69 issued on December 28, 2016, has relaxed the valuation requirements in determining the Insurance Policy Reserve to consider:

- (i) set up of premium liabilities using UPR alone, instead of the higher of UPR (net of DAC) and URR; and,
- (ii) set up MfAD to zero, instead of company-specific MfAD.

On March 9, 2018, the IC, through its CL No. 2018-18, issued the New Valuation Standards for Non-life Insurance Policy Reserves and replaced CL No. 2016-67. Beginning January 1, 2018, among others, the new valuation standards provides for the determination of premium liabilities on an aggregate basis. A computation should be performed to determine whether an additional reserve is required to be booked on top of the UPR. Therefore, premium liabilities should be valued equal to the UPR plus the sum of the higher amount between the (1) URR and UPR, net of related DAC component, and (2) zero. UPR shall be calculated for all classes of business, on a gross of reinsurance basis while URR shall be calculated as the best estimate of future claims and expenses for all classes of business and with MfAD.

On the same date, IC issued its CL No. 2018-19 which amends certain provisions of CL No. 2016-69 as it relates to the calculation of MfAD. IC mandates that MfAD should be company-specific, and allows insurance entities to set MfAD at 0% for 2017, 50% for 2018 and 100% for 2019 onwards.

20.1.6 Losses and claims payable

In 2017, the Company has adopted certain provisions of the Implementing Requirements for the New Valuation Standard for Insurance Policy Reserve through IC CL 2016-69 as its accounting policy for reserving, particularly the incorporation of MfAD and CHE in determining its claims obligation. The Company has engaged an external actuary in determining its Insurance Policy Reserve, who has considered actual historical claims data for the last 10 years, CHE of 2% and MfAD of 0%.

In 2018, the Company has applied entity-specific MfAD at 50% of claims and premiums liabilities, which is based on the Stochastic Chain Ladder method using the Company's own data at 75% sufficiency level for policy reserves. Entity-specific CHE assumption, on the other hand, is computed at 2% of the best estimate of IBNR and outstanding claims.

The adoption of the new reserving framework resulted to the recognition of additional claims reserve as at December 31, 2018 of P4.1 million (2017 - P2.5 million). Such change was considered a change in accounting estimate and accounted for prospectively in the statement of total comprehensive income.

20.1.7 Sensitivities

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

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

Following the Company's adoption of certain provisions of the new valuation standards on insurance policy reserve, the analysis below is performed for a reasonable possible movement in key assumption with all other assumptions held constant, on income and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities but to demonstrate the impact due to changes in assumptions, assumption changes had to be done on an individual basis. It should also be stressed that these assumptions are non-linear and larger or smaller impacts cannot easily be gleaned from these results.

The key assumptions considered in the sensitivity analysis are as follows:

- 12-24 month Loss Development Factor (LDF)
- Initial Loss and Allocated Loss Adjustment Expenses (ALAE) Ratios

The LDF is used to estimate the ultimate losses under the Incurred Chain Ladder/Development Approach and Paid Chain Ladder Development approach. The LDF is based on the Company's historical loss experience supplemented with industry loss triangles.

Initial loss and ALAE Ratios are used to estimate the ultimate loss under Bornhuetter-Ferguson Incurred Approach and Bornhuetter-Ferguson Paid Approach.

Based on IC Circular Letter No. 2016-67 "Valuation Standards for Non-life Insurance Policy Reserves", standard actuarial projection techniques, or combination of which, include but not limited to the chain ladder method, the expected loss ratio approach and the Bornhuetter-Ferguson method.

To show the sensitivity of this assumption, the impact of changing LDF and Initial and ALAE ratios by 10% as at December 31 is shown in the table below.

2018	Change in assumption	% impact on claims liability	
		Gross	Net
Loss Development Factor	+10%	+2.56%	+1.83%
	-10%	-0.48%	-0.40%
Initial Loss and ALAE Ratio	+10%	+0.13%	+0.48%
	-10%	-0.12%	-0.19%

2017	Change in assumption	% impact on claims liability	
		Gross	Net
Loss Development Factor	+10%	+4.86%	+8.11%
	-10%	-0.86%	-1.03%
Initial Loss and ALAE Ratio	+10%	+1.30%	+0.12%
	-10%	-1.30%	-0.09%

Loss development triangle

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

Gross reinsurance basis

As at December 31, 2018

Year of Payment	Accident Year						
	2012	2013	2014	2015	2016	2017	2018
2011 and prior	777,743,764	784,943,866	716,346,621	772,192,903	768,337,254	770,956,273	778,800,148
2012	293,718,082	259,600,808	227,091,937	222,247,734	230,079,349	219,970,717	220,008,333
2013	-	232,428,496	218,857,005	210,566,867	197,578,461	203,735,072	203,717,271
2014	-	-	233,415,444	196,067,852	185,410,598	182,811,609	182,413,584
2015	-	-	-	202,707,922	210,242,766	199,949,061	184,186,427
2016	-	-	-	-	226,398,519	208,624,564	200,577,402
2017	-	-	-	-	-	233,689,130	209,707,661
2018	-	-	-	-	-	-	443,885,766
Cumulative estimate of claim	1,071,461,846	1,276,973,170	1,395,711,007	1,603,783,278	1,818,046,947	2,019,736,426	2,423,296,592
Cumulative payments to date	684,114,875	936,203,522	1,173,874,564	1,365,007,460	1,521,821,462	1,759,696,159	2,062,235,115
Liability recognized in the statement of financial position	387,346,971	340,769,648	221,836,443	238,775,818	296,225,485	260,040,267	361,061,477
IBNR claims, gross of reinsurance							4,090,504
Reserve for outstanding losses, net (Note 6)							365,151,981

As at December 31, 2017

Year of Payment	Accident Year						
	2011	2012	2013	2014	2015	2016	2017
2010 and prior	474,906,822	384,915,608	305,519,959	234,266,852	259,233,739	280,592,656	289,105,899
2011	141,052,524	264,286,811	259,600,808	218,857,004	196,067,853	210,242,766	208,624,566
2012	-	136,277,581	248,547,088	227,091,937	210,566,866	185,410,598	199,949,061
2013	-	-	136,360,936	247,418,808	222,247,734	197,578,461	182,811,609
2014	-	-	-	135,115,840	245,753,941	230,079,349	203,735,071
2015	-	-	-	-	133,083,188	244,407,411	219,970,717
2016	-	-	-	-	-	131,786,619	244,385,520
2017	-	-	-	-	-	-	132,344,483
Cumulative estimate of claim	615,959,346	785,480,000	950,028,791	1,062,750,441	1,266,953,321	1,480,097,860	1,680,926,926
Cumulative payments to date	97,135,195	398,133,030	609,259,144	840,913,998	1,028,177,502	1,183,872,373	1,420,886,659
Liability recognized in the statement of financial position	518,824,151	387,346,970	340,769,647	221,836,443	238,775,819	296,225,487	260,040,267
IBNR claims, gross of reinsurance							2,470,000
Reserve for outstanding losses, net (Note 6)							262,510,267

Net reinsurance basis

As at December 31, 2018

Year of Payment	Accident Year						
	2012	2013	2014	2015	2016	2017	2018
2011 and prior	255,605,280	274,985,829	270,028,996	270,664,466	269,022,933	272,183,322	278,129,414
2012	120,510,265	115,928,571	112,362,860	108,022,487	106,379,212	105,773,599	105,810,274
2013	-	127,494,723	120,837,267	114,792,007	111,410,926	110,883,504	110,907,463
2014	-	-	133,410,276	106,655,012	100,476,926	101,098,872	100,548,018
2015	-	-	-	147,431,447	121,876,508	120,980,300	118,653,177
2016	-	-	-	-	156,044,616	144,197,807	140,729,888
2017	-	-	-	-	-	167,876,947	158,231,877
2018	-	-	-	-	-	-	182,758,686
Cumulative estimate of claim	376,115,545	518,409,123	636,639,399	747,565,419	865,211,121	1,022,994,351	1,195,768,797
Cumulative payments to date	300,449,664	416,340,494	526,972,089	636,283,390	753,119,260	904,471,074	1,070,744,066
Liability recognized in the statement of financial position	75,665,881	102,068,629	109,667,311	111,282,029	112,091,861	118,523,277	125,024,731
IBNR claims, gross of reinsurance							4,090,504
Reserve for outstanding losses, net (Note 6)							129,115,235

As at December 31, 2017

Year of Payment	Accident Year						
	2011	2012	2013	2014	2015	2016	2017
2010 and prior	111,761,846	121,707,898	128,926,599	133,995,992	152,149,128	161,651,889	176,084,646
2011	95,700,977	101,994,237	115,928,570	120,837,266	106,655,011	121,876,509	144,197,806
2012	-	94,336,526	100,636,725	112,362,860	114,792,007	100,476,925	120,980,299
2013	-	-	98,141,395	100,348,259	108,022,487	111,410,926	101,098,871
2014	-	-	-	93,977,261	98,696,684	106,379,212	110,883,504
2015	-	-	-	-	92,010,714	97,333,722	105,773,598
2016	-	-	-	-	-	90,671,088	97,331,941
2017	-	-	-	-	-	-	91,211,506
Cumulative estimate of claim	207,462,823	318,038,661	443,633,289	561,521,638	672,326,031	789,800,271	947,562,171
Cumulative payments to date	144,355,967	242,372,779	341,564,660	451,854,328	561,044,002	677,708,410	829,038,894
Liability recognized in the statement of financial position	63,106,856	75,665,882	102,068,629	109,667,310	111,282,029	112,091,861	118,523,277
IBNR claims, gross of reinsurance							2,470,000
Reserve for outstanding losses, net (Note 6)							120,993,277

20.1.8 Reserve for unearned premiums

The determination of the Company's reserve for unearned premium balance as at December 31, 2018 following the requirement of CL No. 2018-18 (Note 20.1.5) is shown below:

	Note	Gross	Reinsurer's share	Net
UPR		276,135,347	114,981,269	161,154,078
Add: The higher of (a) or (b),				
(a) (1) URR (with MfAD), less		124,982,478	46,926,421	78,056,057
(2) UPR, net of DAC		170,272,152	95,343,189	74,928,963
		(45,289,674)	(48,416,768)	3,127,094
(b) Zero		-	-	-
Unearned premiums at December 31, 2018	6	276,135,347	114,981,269	161,154,078

The Company's UPR, net of DAC, is determined to be higher than the URR. As such, the Company did not require any additional provision for premium liability as the actuarial estimate of URR is less than the Company's UPR, net of DAC.

The Company's reserve for unearned premium balance as at December 31, 2017 following the requirement of CL No. 2016-69 is shown below:

	Note	Gross	Reinsurer's share	Net
Unearned premiums at December 31, 2017	6	282,608,557	(109,698,944)	172,909,613

20.2 Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risk are market risk, credit risk and liquidity risk.

20.2.1 Market risk

Interest rate risk

This is the type of risk that the Company primarily faces due to the nature of its financial assets and liabilities. The interest rate risk is the only financial risk that has a materially different impact across the assets and liabilities categorized in the Company's asset liability management framework.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Given that the Company's debt securities classified as held-to-maturity are carried at amortized cost and have fixed interest rates, these are not exposed to fair value and cash flow interest rate risks.

Foreign currency risk

The insurance business of the Company is mostly denominated in local currency.

Currency exposures arise primarily from the holding of monetary assets and liabilities denominated in US Dollar. The Company does not enter into derivatives to manage foreign currency risks.

The Company's foreign currency assets and liabilities denominated in US Dollars as at December 31 are as follows:

	Notes	2018	2017
Assets			
Cash and cash equivalents	3		
Cash in banks		326,054	951,185
Time deposits		211,089	202,850
Available-for-sale securities	5	782,446	218,160
Held-to-maturity securities	5	6,496,983	5,811,643
Reinsurance recoverable on unpaid losses		630,000	630,000
Total assets		8,446,572	7,813,838
Liability			
Losses and claims payable		637,500	637,500
Net asset		7,809,072	7,176,338
Exchange rate		52.580	49.923
Peso equivalent		410,601,006	358,264,322

For the years ended December 31, the Company's foreign exchange gain (loss) are as follows:

	2018	2017
Unrealized foreign exchange gain	17,285,182	36,392
Realized foreign exchange gain (loss)	347,288	(180,050)
	17,632,470	(143,658)

A sensitivity analysis was performed on the US Dollar denominated assets and liabilities. The fluctuation rate is based on the historical movement of US Dollar year on year.

Year	Change in currency	Effect on net income and equity in Philippine Peso
2018	+/- 1.55%	+/- 4,487,220
2017	+/- 1.26%	+/- 3,187,114

Price risk

The Company is exposed to price risk in respect of equity securities classified as available-for-sale securities.

The Company manages such risk by setting and monitoring objectives and diversification plan.

Net change in fair value of available-for-sale equity securities for the years ended December 31, 2018 would change by P4,137,383 (2017 - P2,908,048) as a result of an increase/decrease of 17.71% (2017 - 11.68%) in market prices which is based on the average historical fluctuation in the stock price index year-on-year.

20.2.2 Credit risk

Credit risk management, risk limit and mitigation policies

(i) Insurance and reinsurance receivable balances

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or group of counterparties, and to geographical and industry segments. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category and territory are approved annually by the Board of Directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. For facultative reinsurers, only approved companies are being used after taking into consideration their paying habit and reciprocal business.

Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders; and
- amounts due from insurance intermediaries.

(ii) Available-for-sale, held-to-maturity debt securities and time deposits

One of the Company's primary investment objectives is to seek the preservation of its portfolio by mitigating the credit risk which is the risk of loss due to failure of the issuer to make good on its obligation when maturity becomes due. This is mitigated by investing in safe securities and diversifying its investment portfolio so that the failure of any one issuer would not materially affect the cash flow of the Company. Within the guidelines provided by the IC, the Company's Investment Committee ensures that the Company invests in allowable categories of investment instruments and provides limitation as to the percentage of the portfolio which can be invested in certain category. Presently, the Company has significant investments in government securities and time deposits with local banks.

For time deposits and debt securities, external ratings such as those provided by Philippine Rating Services Corporation (Philratings) and Standard & Poor (S&P) or their equivalent are used by the Company for managing credit risk exposures. Investments in these deposits and securities are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements.

(iii) Cash

The Company manages credit risk on its cash by depositing largely in universal banks.

(iv) Other receivables

The Company continuously monitors the financial health and status of its counterparties to ascertain that other receivables from these counterparties will be substantially collected on due date. Credit risk on receivables is assessed on an on-going basis.

Maximum exposure to credit risk

Credit risk exposures relating to financial assets at December 31 are as follows:

	2018	2017
Cash and cash equivalents (excluding cash on hand)	233,141,655	307,614,146
Receivable arising from insurance contracts		
Premium receivable	64,590,074	84,544,144
Reinsurance recoverable on paid losses	138,953,265	115,090,192
Due from reinsurers and ceding companies	8,887,415	7,642,849
Funds held by ceding companies	4,130,210	5,798,073
Other receivables		
Accounts receivable	25,650,489	22,982,342
Accrued interest income	8,172,017	5,908,012
Accrued rental income	-	1,469,168
Refundable deposits	69,700	69,700
Security fund	49,149	49,149
Available-for-sale securities	41,140,998	10,916,261
Held-to-maturity securities	793,447,450	689,540,524

Credit quality of receivables arising from insurance contracts and other loans and receivables

Amounts in thousands	Neither past due nor impaired (1-30 days)	Past due but not impaired			Overdue and impaired	Total
		31-180 days	181-360 days	More than 360 days		
December 31, 2018						
Receivable arising from insurance contracts						
Premium receivable	2,287	54,040	3,996	2,714	1,553	64,590
Reinsurance recoverable on paid losses	20,040	28,313	15,132	75,468	-	138,953
Due from reinsurers and ceding companies	957	1,661	634	5,635	-	8,887
Funds held by ceding companies	-	-	-	4,130	-	4,130
Other loans and receivables						
Accounts receivable	581	2,569	3,527	18,973	-	25,650
Accrued interest income	2,407	5,682	83	-	-	8,172
Refundable deposits	70	-	-	-	-	70
Security fund	49	-	-	-	-	49
	26,391	92,265	23,372	106,920	1,553	250,501

Amounts in thousands	Neither past due nor impaired (1-30 days)	Past due but not impaired			Overdue and impaired	Total
		31-180 days	181-360 days	More than 360 days		
December 31, 2017						
Receivable arising from insurance contracts						
Premium receivable	31,624	35,001	3,618	12,748	1,553	84,544
Reinsurance recoverable on paid losses	7,006	17,238	29,296	61,550	-	115,090
Due from reinsurers and ceding companies	163	408	346	6,726	-	7,643
Funds held by ceding companies	50	492	2,416	2,840	-	5,798
Other loans and receivables						
Accounts receivable	804	95	122	21,961	-	22,982
Accrued interest income	2,604	1,045	92	2,167	-	5,908
Accrued rental income	1,469	-	-	-	-	1,469
Refundable deposits	70	-	-	-	-	70
Security fund	49	-	-	-	-	49
	43,839	54,279	35,890	107,992	1,553	243,553

The credit quality of receivables can be assessed by reference to historical information about the counterparties' default rates. Currently, there is no history of default for these counterparties, and, hence, no impairment needs to be recognized on these receivables, other than those receivables which were classified under overdue and impaired category which have been fully provided for.

Receivables from insurance and reinsurance contracts and other loans and receivables which are neither past due nor impaired are assessed to be collectible and that no impairment indicators exist for such items.

As at December 31, 2018, receivables from insurance and reinsurance contracts and other loans and receivables of P222,557 thousand (2017 - P198,161 thousand) are past due but not impaired. These relate to a number of independent counterparties for whom there is no recent history of default.

As at December 31, 2018 and 2017, allowance for impairment on premium receivable amounts to P1,553,000.

Credit quality of cash and cash equivalents, available-for-sale securities and held-to-maturity securities

	A+ to AAA*	BBB- to BB+**	Unrated***	Total
December 31, 2018				
Available-for-sale securities	41,140,998	-	-	41,140,998
Held-to-maturity securities				
Treasury bonds and notes				
Philippine Peso	-	114,655,264	173,138,106	287,793,370
US Dollar	-	210,540,734	49,044,900	259,585,634
Corporate bonds	40,999,800	-	51,697,485	92,697,285
Short-term time deposits	-	-	153,371,161	153,371,161
	82,140,798	325,195,998	427,251,652	834,588,448
Cash and cash equivalents				
Universal bank	-	-	194,330,650	194,330,650
Commercial bank	-	-	30,129,175	30,129,175
Thrift bank	-	-	8,387,081	8,387,081
Rural bank	-	-	294,749	294,749
	-	-	233,141,655	233,141,655
December 31, 2017				
Available-for-sale securities	10,916,261	-	-	10,916,261
Held-to-maturity securities				
Treasury bonds and notes				
Philippine Peso	-	250,881,132	10,036,942	260,918,074
US Dollar	-	108,638,415	138,227,075	246,865,490
Corporate bonds	35,000,000	-	16,000,000	51,000,000
Short-term time deposits	-	-	130,756,960	130,756,960
	45,916,261	359,519,547	295,020,977	700,456,785
Cash and cash equivalents				
Universal bank	-	-	243,762,147	243,762,147
Commercial bank	-	-	55,337,110	55,337,110
Thrift bank	-	-	8,180,913	8,180,913
Rural bank	-	-	333,976	333,976
	-	-	307,614,146	307,614,146

* Based on Philratings

** Based on Standard & Poor's rating

***Unrated short-term deposits, corporate bonds and cash and cash equivalents are issued by local commercial and universal banks.

The credit quality of cash and cash equivalents is based on the Bangko Sentral ng Pilipinas classification of banks operating in the Philippines. To minimize credit risk, the Company invests only in financial institutions which are reputable and in good credit standing.

Philratings and Standard & Poor's are reputable credit rating agencies used in the market to determine credit risk of local and international companies respectively.

Unrated counterparties have no history of default and hence, no provisions are required.

20.2.3 Liquidity risk

The Company is exposed to daily calls on its available cash resources mainly from claims arising from short-term insurance contracts. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The IC as well as the Board of Directors have issued certain guidelines to comply with to ensure that the Company maintains liquidity at all times.

The amounts disclosed in the table are the expected undiscounted cash flows of assets and liabilities, which the Company uses to manage the inherent liquidity risk.

Amounts in thousands	Up to one year	Over one year	Total
December 31, 2018			
Assets			
Cash and cash equivalents	273,889	-	273,889
Receivables arising from insurance contracts			
Premium receivable	60,323	2,714	63,037
Reinsurance recoverable on paid losses	63,485	75,468	138,953
Due from reinsurers and ceding companies	3,252	5,635	8,887
Funds held by ceding companies	-	4,130	4,130
Other loans and receivables			
Accounts receivable	421	25,229	25,650
Accrued interest income	8,172	-	8,172
Refundable deposits	70	-	70
Security fund	49	-	49
Available-for-sale securities	66,166	-	66,166
Held-to-maturity securities	132,376	661,072	793,448
	608,203	774,248	1,382,451
Liabilities			
Losses and claims payable	248,008	117,144	365,152
Due to reinsurers and ceding companies	142,330	53,841	196,171
Funds held for reinsurers	33,963	7,431	41,394
Commissions payable	10,297	-	10,297
Accounts payable and other liabilities (excluding tax-related payables and retirement benefit obligation)	26,852	25,162	52,014
	461,450	203,578	665,028
Net assets	146,753	570,670	717,423

Amounts in thousands	Up to one year	Over one year	Total
December 31, 2017			
Assets			
Cash and cash equivalents	327,952	-	327,952
Receivables arising from insurance contracts			
Premium receivable	70,246	12,745	82,991
Reinsurance recoverable on paid losses	53,540	61,550	115,090
Due from reinsurers and ceding companies	1,904	5,739	7,643
Funds held by ceding companies	2,958	2,840	5,798
Other loans and receivables			
Accounts receivable	16,067	6,915	22,982
Accrued interest income	5,908	-	5,908
Refundable deposits	70	-	70
Security fund	49	-	49
Available-for-sale securities	37,467	-	37,467
Held-to-maturity securities	149,344	540,197	689,541
	665,505	629,986	1,295,491
Liabilities			
Losses and claims payable	116,925	145,585	262,510
Due to reinsurers and ceding companies	21,350	145,343	166,693
Funds held for reinsurers	35,060	473	35,533
Commissions payable	2,115	-	2,115
Accounts payable and other liabilities (excluding tax-related payables and retirement benefit obligation)	56,220	-	56,220
	231,670	291,401	523,071
Net assets	433,835	338,585	772,420

20.3 Fair value of financial assets and financial liabilities

The aggregate fair value of the Company's available-for-sale securities at December 31, 2018 amounting to P66.17 million (2017 - P37.47 million), which is determined based on market prices, include investment in mutual funds and listed equity securities aggregating P64.50 million (2017 - P35.70 million) under Level 1 and unquoted equity securities amounting to P1.67 million (2017 - P1.77 million) under Level 2 of the fair value hierarchy.

There are no other financial instruments measured at fair value at December 31, 2018 and 2017.

The carrying amounts of the Company's other financial assets approximate their respective fair values as at December 31, 2018 and 2017 due to their short term maturities.

As at December 31, 2018, the fair value of held-to-maturity securities amounts to P764,150,277 (2017 - P689,244,893). Such valuation falls under Level 2 of the fair value hierarchy.

As at reporting dates, there are no financial instruments that fall under the Levels 3 hierarchy. There were also no transfers between categories during the reporting period.

The method and assumptions used by the Company in estimating the fair value of financial instruments are as follows:

Cash in banks and cash equivalents

The estimated fair value of interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity. The carrying values of interest-bearing deposits in which the interest rates are repriced approximate their fair values.

Receivables

The estimated fair value of receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Due to the short term nature of the receivables, the carrying amount approximates fair value.

Held-to-maturity and available-for-sale securities

Fair values of held-to-maturity and available-for-sale securities are based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Financial liabilities

The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. Due to the short-term nature of the liabilities, the carrying values already approximate their fair values at reporting date.

20.4 Capital management

The Company's objectives when managing capital are:

- to comply with the minimum net worth requirement and Risk-Based Capital (RBC) model set by the IC;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide security for its policyholders, returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

The Company calculates its capital as equity as shown in the statement of financial position.

The Company maintains a certain level of capital to ensure solvency margin in excess of regulatory requirements, which in turn, protects its policyholders.

To ensure compliance with these externally imposed capital requirements, it is the Company's policy to assess its position, at least on a quarterly basis, against set minimum capital requirements. The Company elevates any requirement for additional capital infusion to its shareholders to address any foreseen capital deficiency.

20.4.1 Minimum statutory net worth

The Company also manages its capital through its compliance with Republic Act No. 10607 - Amended Insurance Code, effective September 20, 2013. Under this Act, the requirement for domestic insurance companies to maintain a minimum statutory net worth amounts to:

June 30, 2013	P250 million
December 31, 2016	P550 million
December 31, 2019	P900 million
December 31, 2022	P1,300 million

Net worth shall consist of paid-up capital, retained earnings, unimpaired surplus, and revaluation of assets as may be approved by the Insurance Commissioner.

The Company's net worth as at December 31, 2018 amounts to P851,060,569 (2017 - P765,109,624). The Company is compliant with the minimum statutory net worth as at December 31, 2018 and 2017.

As at April 30, 2019, management's initiatives are underway to build up its capital to comply with the minimum net worth requirement.

20.4.2 RBC2 Framework

On December 28, 2016, the IC issued CL No. 2016-68 which provides for the Amended RBC 2 Framework with effect beginning January 1, 2017. The CL provides that the RBC ratio of a non-life insurance company is calculated by dividing the total available capital by the RBC requirement. Total available capital is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and deductions prescribed by the IC. The non-life RBC requirement considered the following components set by the IC:

- (i) credit risk capital charge;
- (ii) insurance risk capital charge;
- (iii) market risk capital charge for equities;
- (iv) market risk capital charge for other than equities;
- (v) operational risk capital charge; and,
- (vi) catastrophe risk capital charge.

The minimum RBC ratio is to be established at 100%. All non-life insurance companies are required to maintain the minimum RBC ratio and not fail the trend test. Failure to meet the minimum RBC ratio will trigger regulatory intervention by the IC.

On the same date, the IC issued CL No. 2016-69 which provides that on the year of implementation of the Amended RBC2 Framework, the RBC requirement will be relaxed to consider the level of sufficiency to be 95th percentile for year 2017, 97.5th percentile for year 2018 and 99.5th percentile for year 2019.

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

	2018	2017
Net worth	851,060,569	765,109,624
RBC requirement	123,083,448	112,800,941
RBC ratio	691%	678%

The 2018 Annual Statements of the Company have not yet been approved by the IC. The final amount of the 2018 net worth and RBC can be determined only after the accounts of the Company have been examined by the IC specifically as to admitted and non-admitted assets as defined in the previous insurance code.

The Company is compliant with the requirements of the RBC2 framework and will not require capital call from shareholders as at December 31, 2018 and 2017.

Note 21 - Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

21.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities.

The preparation of financial statements in conformity with PFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 20.

Changes in accounting policy and disclosures

(a) New standards adopted by the Company

There are no new standards effective January 1, 2018 which will have significant impact to the Company's financial statements.

(b) New standards and interpretations not yet adopted by the Company

The following relevant new accounting standards and interpretations are not mandatory for the December 31, 2018 reporting period and has not been early adopted by the Company:

- *PFRS 17, 'Insurance Contracts' (effective January 1, 2023)*

PFRS 17 was issued in May 2017 as replacement for PFRS 4, Insurance Contracts. PFRS 17 represents a fundamental change in the accounting framework for insurance contracts requiring liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of (1) discounted probability-weighted cash flows, (2) an explicit risk adjustment, and (3) a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under PFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

PFRS 17 is effective the accounting periods beginning on or after January 1, 2022, although the IC has determined to defer the effective date of PFRS 17 implementation by one year to accounting periods commencing on or after January 1, 2023. The IC, in coordination with Philippine Insurers and Reinsurers Association, is currently reviewing the impact of PFRS 17 across the entire industry and has established a project team to manage the implementation approach.

The Company is currently assessing the financial and operational impact of PFRS 17.

- *PFRS 9 'Financial instruments' and its interaction with PFRS 4 'Insurance Contracts'*.

PFRS 9 replaces the multiple classification and measurement models for financial assets in PAS 39 with a single model that has three classification categories: amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. Classification under PFRS 9 is driven by the entity's business model for managing and holding the financial assets and whether the contractual characteristics of the financial assets represent solely payments of principal and interest. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. The classification and measurement of financial liabilities under PFRS 9 remains the same as in PAS 39 except where an entity has chosen to measure a financial liability at fair value through profit or loss. For such liabilities, changes in fair value arising from changes in the entity's own credit risk are presented separately in OCI.

The impairment rules of PFRS 9 introduce an 'expected credit loss' model that replaces the 'incurred credit loss' model used in PAS 39. Such new impairment model will generally result in earlier recognition of losses compared to PAS 39.

The hedging rules of PFRS 9 better align hedge accounting with an entity's risk management strategies. Also, some of the prohibitions and rules in PAS 39 are removed or changed, making hedge accounting easier or less costly to achieve for many hedges.

In September 2016, 'Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts (Amendments to PFRS 4)' was issued, which provides optional relief to insurers meeting certain criteria from any adverse impact that may arise from the different effective dates of PFRS 9 and PFRS 17. The two options for entities that issue contracts within the scope of PFRS 4 permit an entity to either: (1) reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets; referred to as the 'overlay approach', or (2) for entities whose predominant activity is issuing contracts within the scope of PFRS 4, defer the application of PFRS 9 entirely; referred to as the 'deferral approach'.

Deferral of adoption of PFRS 9

The Company has elected to apply the temporary option since it satisfies the following criteria:

- The Company has not previously applied any versions of PFRS 9; and,
- The Company's activities are predominantly connected with insurance at annual reporting date that immediately precedes April 1, 2016, i.e., December 31, 2015, based on the eligibility assessment that:
 - the carrying amount of liabilities arising from contracts within the scope of PFRS 4 is greater than 90% of the total carrying amount of all its liabilities; or,
 - the carrying amount of liabilities arising from contracts within the scope of PFRS 4 is less than 90% and the total carrying amount of liabilities connected with insurance is equal to or less than 90% but greater than 80% of the total carrying amount of all its liabilities.

The Company made the assessment based on the financial position as at December 31, 2015, concluding that the carrying amount of the Company's liabilities arising from contracts within the scope of PFRS 4 was significant compared to the total carrying amount of all its liabilities. The percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities as at December 31, 2015 is assessed to be 90%. After the date of eligibility assessment, there has been no change in the Company's activities that requires a reassessment of the eligibility assessment.

All of the Company's financial assets, excluding those financial assets that are defined as 'held-for-trading' or that are managed and evaluated on a fair value basis (AFS equity securities), are with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As at December 31, 2018, the financial assets that are carried at fair value, are shown in Note 5. Changes in the fair value of these financial assets for the year ended December 31, 2018 are disclosed in Note 11. Information about the credit risk exposure of these assets is disclosed in Note 20.2.2.

The following tables set out the fair value at December 31, 2018 and changes in fair values for the year ended December 31, 2018, of financial assets separately for the following groups:

- Financial assets that meet the SPPI criteria in PFRS 9, excluding those financial assets that are defined as 'held-for-trading' or that are managed and evaluated on a fair value basis; and
- All other financial assets, including those assets that do not meet the SPPI criteria in PFRS 9 and those financial assets that are defined as 'held-for-trading' or that are managed and evaluated on a fair value basis.

Financial assets that meet the SPPI criteria in PFRS 9 are those whose cash flows comprise solely payments of principal and interest on principal outstanding (SPPI).

The fair value of financial instruments at December 31, 2018 classified between those that meet and those that fail the SPPI criterion are described as follow:

	Financial assets that meet the SPPI criteria	Financial assets that fail the SPPI criteria	Total
Cash and cash equivalents	273,888,688	-	273,888,688
Available-for-sale securities	41,140,998	25,025,034	66,166,032
HTM financial assets	793,447,450	-	793,447,450
Other receivables			
Accounts receivables	26,650,357	-	26,650,357
Accrued interest income	8,172,017	-	8,172,017
Refundable deposits	69,700	-	69,700
Security fund	49,149	-	49,149
	1,143,418,359	25,025,034	1,168,443,393

For financial assets as at December 31, 2018 that meet the SPPI criteria, the current carrying values measured in accordance with PAS 39 are analyzed in the following table by credit rating:

2018	Neither past due nor impaired			Past due	Impaired	Total
	High	Medium	Low			
Cash and cash equivalents	233,141,655	-	-	-	-	233,141,655
Available-for-sale securities	41,140,998	-	-	-	-	41,140,998
HTM financial assets	793,447,450	-	-	-	-	793,447,450
Other receivables						
Accounts receivables	25,996,468	-	-	653,889	-	26,650,357
Accrued interest income	8,172,017	-	-	-	-	8,172,017
Refundable deposits	-	-	-	69,700	-	69,700
Secufity fund	-	-	-	49,149	-	49,149
	1,101,898,588	-	-	772,738	-	1,102,671,326

- *PFRS 16, Leases (effective for annual periods beginning on or after January 1, 2019)*

PFRS 16 will replace the current guidance in PAS 17, 'Leases'. PFRS 16 which will become effective on January 1, 2019 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. PFRS 16 removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An optional exemption exists for short-term and low-value leases.

The adoption of PFRS 16 will likely affect the accounting of certain assets currently held by the Company under operating lease arrangements. The Company will recognize a right-of-use asset and a lease liability for its leases previously classified as operating leases. The Company does not intend to early adopt the new standard as at December 31, 2018.

- *Philippine Interpretation IFRIC-23, 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after January 1, 2019)*

It has been clarified previously that PAS 12, 'Income taxes', not PAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The adoption of the above interpretation will not have a material impact on the Company's financial statements since the Company has no uncertain tax position.

There are no other standards, amendments or interpretations that are not yet effective and that would be expected to have a material impact on the Company's financial statements.

21.2 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of changes in value.

21.3 Financial assets

21.3.1 Classification

The Company classifies its financial assets in the following categories: loans and receivables, held-to-maturity investments, at fair value through profit or loss and available-for-sale securities. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Company has no investments classified as at fair value through profit or loss during and at the end of each reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Company's loans and receivables consists of cash and cash equivalents (Note 3) and receivables (Note 4) in the statement of financial position.

Held-to-maturity securities

Held-to-maturity securities are 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.

Held-to-maturity securities of the Company consist of treasury bonds and notes, corporate bonds and time deposits (Note 5).

Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Available-for sale securities consist of preferred shares and investments in mutual funds.

21.3.2 Initial recognition and subsequent measurement

Financial assets, consisting of loans and receivables, held-to-maturity securities and available-for-sale securities, are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition.

Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost using the effective interest method.

Available-for-sale securities are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Interest earned on these securities is recognized using the effective interest rate in profit or loss. Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company's right to receive payment is established. Changes in the fair value of monetary securities denominated in foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of security and other changes in the carrying amount of the security. The translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognized in equity.

21.3.3 Derecognition

Financial assets, consisting of loans and receivables, held-to-maturity securities and available-for-sale securities, are derecognized when the contractual right to receive cash flows from the financial assets has ceased to exist or where the Company has transferred substantially all risks and rewards of ownership.

21.3.4 Impairment of financial assets

Financial assets classified as loans and receivables and held-to-maturity securities

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

The criteria that the Company uses to determine that there is an objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as default or delinquency in interest or principal payments; and
- it becomes probable that the debtor will enter bankruptcy or other financial reorganization.

The Company first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an 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 them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. Impairment loss, if any, is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss as a reduction of impairment losses for the year.

Loans and receivables are written-off in the year in which they are determined to be uncollectible. Loans and receivables are determined to be uncollectible after exerting effort to collect the accounts and upon approval by the Company's Board of Directors.

Financial assets classified as available-for-sale securities

The Company assesses at the end of each reporting period whether there is an objective evidence that available-for-sale debt securities are impaired using similar criteria and process applied to financial assets carried at amortized cost as described above.

For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence that the assets are impaired. A decline in the fair value of the instrument by more than 20 percent is considered significant and a period of 12 months or greater is considered to be a 'prolonged' decline. If any such evidence exists for available-for-sale equity securities, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and recognized in profit or loss. Impairment losses on equity investment are not reversed in profit or loss. Increases in fair value after impairment are recognized directly in equity.

21.4 Financial liabilities

21.4.1 Classification

The Company classifies its financial liabilities in the following categories: at fair value through profit or loss and at amortized cost. The classification depends on the purpose for which the financial liabilities were acquired or incurred. Management determines the classification of its financial liabilities at initial recognition.

The Company's financial liabilities include losses and claims payable (excluding IBNR) (Note 6), due to reinsurers and ceding companies (Note 6), commissions payable, and accounts payable and other liabilities (excluding tax-related payables and retirement benefit obligation).

The Company has no financial liabilities classified as at fair value through profit or loss during and at the end of each reporting period.

21.4.2 Initial recognition subsequent measurement

Financial liabilities are initially recognized at fair value of the consideration received plus transaction costs. Financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest method.

21.4.3 Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired.

21.5 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

Financial assets

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

Non-financial assets

For non-financial assets, the Company uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Common used valuation techniques are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair value of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

21.6 Offsetting of financial instruments

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

21.7 Insurance contracts

21.7.1 Recognition and measurement

Short-term insurance contracts of the Company include property, marine cargo and casualty insurance contracts.

For all these contracts, premiums are recognized as revenue as follows:

Direct business

Gross premiums written are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The portion of the gross premiums written that relates to the unexpired periods of the policies at year-end is presented as reserve for unearned premiums in the statement of financial position.

Inward reinsurance business

Gross premiums written are recognized based on the date of notification by the ceding companies and are earned over the period of cover in accordance with the incidence of risk using the 24th method. The portion of the gross premiums written that relates to the unexpired periods of the policies at year-end is presented as reserve for unearned premiums in the statement of financial position.

Outward reinsurance business

The related reinsurance premiums ceded that pertain to the unexpired periods at year-end are reported as deferred reinsurance premiums in the statement of financial position.

The net change in the reserve for unearned premiums and deferred reinsurance premiums during the reporting period is recognized in profit or loss.

Reinsurance premiums are recognized based on notification of inception of the underlying risks underwritten and are allocated over the period of cover in accordance with the incidence of risk using the 24th method.

21.7.2 Insurance contracts liabilities

(a) Premium liabilities

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risk that have not yet expired, is deferred as provision for unearned premiums using the 24th method.

The change in provision for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk. Further provision is made to cover any deficiency to the extent that the URR exceeds the UPR, net of DAC. The URR represents the premiums to match future claims and expenses in the unexpired coverage period of in-force contracts. The future claims and expenses are adjusted for potential changes or uncertainties

(b) Claims liabilities (losses and claims payable)

Losses and claims payable are recognized when the contracts are entered into and the premiums are charged. Loss and claims adjustment expenses are recognized in profit or loss based on the estimated liability for compensation owed to contract holders or to third parties damaged by the contract holders. These include direct and indirect claim settlement costs arising from events that have occurred up to the reporting date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims.

Liabilities for unpaid claim costs, including those for IBNR, are estimated and accrued and considers actual claims reported in the succeeding year but for which the related insured event occurred in the year under coverage. The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims using the input of assessment for individual cases reported to the Company. The method of determining such estimates and establishing reserves is continually reviewed and updated.

Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expenses in the year in which the estimates are changed or payments are made. Estimated recoveries on settled and unsettled claims are evaluated in terms of estimated realizable values of the salvage recoverable and deducted from the liability for unpaid claims.

Outstanding claims and IBNR losses are presented in the statement of financial position as part of losses and claims payable.

21.7.3 Reinsurance commission

Reinsurance commission is initially recognized upon acceptance of the premium cession by reinsurers. Reinsurance commission is presented as commissions earned in the statement of total comprehensive income.

21.7.4 Deferred acquisition costs

Costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts such as commissions are deferred and charged to expense in proportion to premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as deferred acquisition costs.

Reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, and recognized in profit or loss using the same amortization method as the related acquisition costs.

21.7.5 Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs. In performing these tests, current best estimate of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing-off deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired provision). There were no deficiencies recognized in profit or loss during the reporting periods. Any deferred acquisition costs written off as a result of this test cannot be subsequently reinstated.

21.7.6 Reinsurance contracts held

Contracts entered by the Company with reinsurers, which compensate the Company for losses in one or more contracts issued and meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Company under which the contract holder is another insurer (inward reinsurance) are classified as insurance contracts. Contracts that do not meet these classification requirements are classified as financial contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of reinsurance recoverable on paid and unpaid losses, due from reinsurers and ceding companies and funds held by ceding companies (classified within receivables).

The Company assesses its reinsurance assets for impairment annually. If there is an objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes an impairment loss in profit or loss. The Company gathers the objective evidence that a reinsurance asset is impaired using the same policies adopted for financial assets held at amortized cost. The impairment loss is also calculated following the same method used for these financial assets. These policies are described in Note 21.3.4.

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense upon recognition of related premiums. These liabilities pertain to due to reinsurers and ceding companies and funds held for reinsurers.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with terms of each reinsurance contract.

21.7.7 Receivables and payables related to insurance contracts

Receivables and payables, such as premium receivable, losses and claims payable and commissions payable, are recognized when the right to receive payment is established or when the obligation becomes due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is an objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same policies adopted for loans and receivables. The impairment loss is also calculated under the same method used for financial assets. These policies are described in Note 21.3.4.

21.7.8 Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell usually damaged property acquired in settling a claim (i.e., salvage). The Company also have the right to pursue third parties for payment of some or all costs (i.e., subrogation).

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are charged against losses and claims payable when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

21.8 Investment properties

Properties held for long term rental yields or for capital appreciation or for both, are classified as investment properties. These properties are initially measured at cost, which includes transaction costs, but excludes day to day servicing costs. Replacement cost is capitalized if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. Subsequently, at each reporting date, investment properties, except for land, are carried at cost less accumulated depreciation and impairment losses, if any.

Land is carried at cost less any impairment in value.

Depreciation of investment property is computed using the straight-line method over its useful life. The estimated useful life and the depreciation method is reviewed periodically to ensure that the period and the method of depreciation is consistent with the expected pattern of economic benefits from items of investment properties. The estimated useful life of the investment properties is 25 years.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. There were no transfers made to investment property during and at the end of each reporting period.

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

Rental income from investment property is recognized in profit or loss on a straight-line basis over the lease term. Lease incentives are recognized as an integral part of the total rent income. Expenses with regard to investment property are treated as ordinary operating expenses and are recognized when incurred.

21.9 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditures that are directly attributable to the acquisition of items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Building	27 years
EDP equipment	5 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	5 to 7 years
Leasehold improvements	5 years or lease term, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted as appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal at which time the cost and their related accumulated depreciation are removed from the accounts. Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognized as part of miscellaneous income or expense in the statement of total comprehensive income.

21.10 Impairment of non-financial assets

Assets that are subject to depreciation or amortization, such as property and equipment and investment property, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Value-in-use requires the Company to make estimates of future cash flows to be derived from a particular asset, and discount them using a pre-tax market rate that reflects current assessments of the time value of money and the risks specific to the asset. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

21.11 Income taxes

Current income tax

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

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using the tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess of minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred income tax liability arises from the initial recognition of goodwill.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority and where there is an intention to settle the balances on a net basis.

Deferred income tax expense or credit included in provision for income tax is recognized for the changes during the year in the deferred income tax assets and liabilities.

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

21.12 Provisions

Provisions for legal claims are recognized when the following are present:

- the Company has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognized for future operating losses.

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 current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

21.13 Retirement benefit obligation

The Company maintains a funded defined benefit plan for all its regular employees. A defined benefit plan is a retirement plan that defines an amount of retirement benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation less the fair value of plan assets at reporting dates. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against equity in other comprehensive income (shown as part of accumulated other comprehensive income in the statement of financial position) in the period in which they arise.

Past service cost, if any, are recognized immediately in profit or loss.

21.14 Equity

Share capital

Share capital represents shares issued and outstanding.

Share premium

Any amount received by the Company in excess of par value of its shares is credited to share premium which forms part of the non-distributable reserve of the Company and can be used only for purposes specified under corporate legislation.

Retained earnings

Retained earnings pertain to the unrestricted portion of the accumulated profit from operations of the Company, which are available for dividend declaration.

21.15 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Board of Directors.

21.16 Revenue recognition

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

Premium revenue

Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at reporting date is accounted for as reserve for unearned premiums in the statement of financial position. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums presented in the statement of financial position. The net changes in these accounts between reporting dates are included in the determination of net premium earned.

Commission income

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the deferred reinsurance commission pertains to the premiums for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as deferred reinsurance commissions and offset against deferred acquisition costs in the statement of financial position.

21.17 Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Properties leased out under operating leases are included in investment properties in the statement of financial position. Rental income under operating leases is recognized as part of investment and other income in the statement of total comprehensive income on a straight-line basis over the period of the lease.

21.18 General and administrative expenses

General and administrative expenses are recognized when incurred.

21.19 Foreign currency transactions and translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rate as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rate at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale securities are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities classified as available-for-sale are included in other comprehensive income.

21.20 Related party transactions and relationships

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

21.21 Events after the reporting date

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

Note 22 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by Revenue Regulation No. 15-2010 that is relevant to the Company. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements. All amounts are in Philippine Pesos.

(i) Output VAT

Output VAT declared for the year ended December 31, 2018 and the revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Premiums (non-life)	693,088,285	83,170,594
Commission income	51,452,811	6,174,337
Rental income	7,809,311	937,117
	752,350,407	90,282,048

The gross revenues shown above are based on gross receipts of the Company for VAT purposes while gross revenues presented in the statement of total comprehensive income are measured in accordance with the policy in Notes 21.16 and 21.17. Output VAT presented as part of taxes payables under accounts payable and other liabilities in the statement of financial position amounts to P8,332,393.

(ii) Input VAT

Movements in input VAT for the year ended December 31, 2018 follow:

	Amount
Beginning balance	2,854,760
Input tax on services	34,202,567
Deferred input tax	(33,691,384)
Ending balance	3,365,943

The above input VAT is presented as part of other assets in the statement of financial position.

(iii) Documentary stamp tax

Documentary stamp taxes (DST) paid for the year ended December 31, 2018 amounts to P109,000,000. Overpayment of DST as at December 31, 2018 amounts to P4,582,490 which is netted against taxes payable under accounts payable and other liabilities in the statement of financial position.

(iv) All other local and national taxes

All other local and national taxes paid and accrued for the year ended December 31, 2018 consist of:

	Paid	Accrued	Total
Fire service tax	2,123,062	879,713	3,002,775
Real property tax	1,064,881	-	1,064,881
Local government tax on premiums	-	1,215,671	1,215,671
IC supervision/filing fees	277,550	-	277,550
IC Certificate of Authority renewal fees	143,492	-	143,492
Municipal taxes	68,945	-	68,945
Premium tax (non-life)	43,868	43,684	87,552
Community tax	10,500	-	10,500
Others	300,180	-	300,180
	4,032,478	2,139,068	6,171,546

The above local and national taxes are charged to taxes, licenses and fees the statement of total comprehensive income, except for fire service tax, local government tax on premiums and premium tax (non-life) which are passed on to the policyholders.

The accrued other local and national taxes are presented as part of taxes payable under accounts payable and other liabilities in the statement of financial position.

(v) Withholding taxes

Withholding taxes paid and accrued for the year ended December 31, 2018 consist of:

	Paid	Accrued	Total
Expanded withholding tax	22,354,174	2,507,993	24,862,167
Withholding tax on compensation	1,596,630	844,847	2,441,477
Final withholding tax	197,979	60,591	258,570
	24,148,783	3,413,431	27,562,214

The accrued withholding taxes are included as part of taxes payable under accounts payable and other liabilities in the statement of financial position.

(vi) Tax assessments and cases

As at December 31, 2018, the Company's open tax years are 2015, 2016 and 2017. The Company has no pending tax cases as at and for the year ended December 31, 2018.

All other information required to be disclosed by the BIR have been included in this note.