

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
PGA Sampo Insurance Corporation
5th Floor Corinthian Plaza Building
121 Paseo de Roxas, Legaspi Village
Makati City



Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PGA Sampo Insurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of 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).

Basis for Opinion

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

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

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

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

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



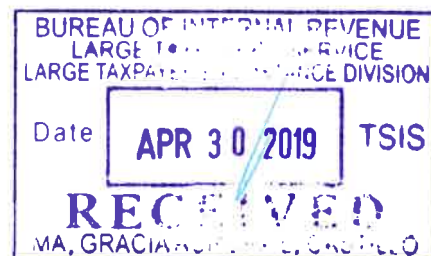
Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of PGA Sompo Insurance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Juan Carlo B. Maminta
Partner

CPA Certificate No. 115260

SEC Accreditation No. 1699-A (Group A),

August 16, 2018, valid until August 15, 2021

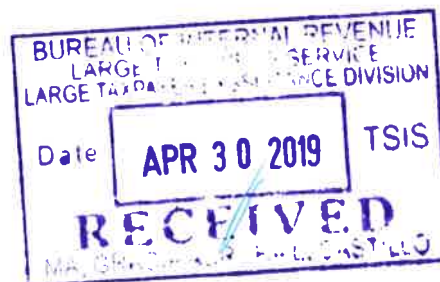
Tax Identification No. 210-320-399

BIR Accreditation No. 08-001998-132-2018,

February 9, 2018, valid until February 8, 2021

PTR No. 7332575, January 3, 2019, Makati City

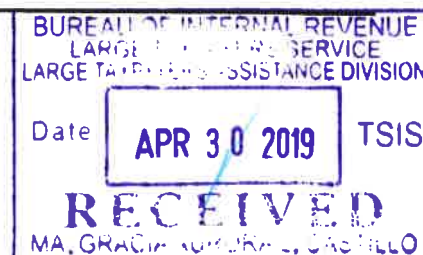
April 29, 2019



PGA SOMPO INSURANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Cash and cash equivalents (Note 4)	₱209,070,699	₱357,650,474
Short-term investments (Note 4)	407,317,613	242,844,962
Insurance receivables - net (Note 5)	706,236,240	557,529,709
Financial assets (Notes 6)		
Financial assets at fair value through profit or loss	128,419,883	177,821,185
Available-for-sale financial assets	87,091,519	63,133,992
Held-to-maturity financial assets	222,196,026	-
Loans and receivables	113,032,138	90,209,722
Reinsurance assets (Notes 7 and 11)	2,661,274,524	2,889,988,031
Deferred acquisition costs (Note 8)	62,145,194	78,653,782
Property and equipment - net (Note 9)	14,622,572	6,288,710
Deferred tax assets - net (Note 19)	4,208,595	16,554,758
Other assets (Note 10)	45,880,680	41,704,482
TOTAL ASSETS	₱4,661,495,683	₱4,522,379,807
LIABILITIES AND EQUITY		
Liabilities		
Insurance contract liabilities (Notes 11 and 21)	₱2,773,249,368	₱2,956,042,413
Insurance payables (Notes 12)	904,825,459	629,178,203
Accounts payable and accrued expenses (Note 13)	83,051,586	91,925,110
Deferred reinsurance commissions (Note 8)	116,686,822	109,021,607
Net pension benefit obligation (Note 14)	3,774,893	3,750,880
Total liabilities	3,881,588,128	3,789,918,213
Equity		
Capital stock - ₱100 par value (Notes 21 and 24)		
Authorized - 15,000,000 shares		
Issued and outstanding - 6,500,000 shares	650,000,000	650,000,000
Contributed surplus	4,666,000	4,666,000
Revaluation reserve on available-for-sale financial assets (Note 6)	50,495,264	35,552,736
Remeasurements on defined benefit plan (Note 14)	(2,859,777)	(2,123,655)
Retained earnings	77,606,068	44,366,513
Total equity	779,907,555	732,461,594
TOTAL LIABILITIES AND EQUITY	₱4,661,495,683	₱4,522,379,807

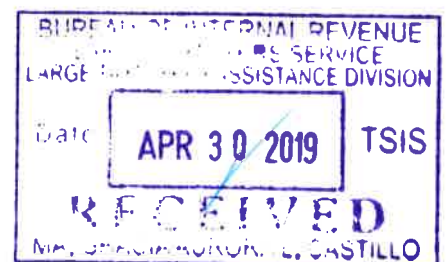
See accompanying Notes to Financial Statements.



PGA SOMPO INSURANCE CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31	
	2018	2017
Gross premiums earned (Note 15)	P1,774,759,379	P1,516,228,822
Reinsurers' share of gross premiums earned (Note 15)	1,709,792,618	1,436,910,082
Net premiums earned (Notes 11, 15 and 23)	64,966,761	79,318,740
Commission income (Note 8)	231,509,612	209,786,550
Investment and other income - net (Note 16)	27,558,396	22,181,105
Other income	259,068,008	231,967,655
Total income	324,034,769	311,286,395
Gross insurance contract benefits and claims paid (Note 17)	1,077,148,356	1,346,189,159
Reinsurers' share of gross insurance contract benefits and claims paid (Note 17)	(1,035,251,465)	(1,282,757,262)
Gross change in insurance contract liabilities (Note 17)	(260,483,924)	1,834,490,074
Reinsurers' share of gross change in insurance contract liabilities (Note 17)	287,678,867	(1,819,096,888)
Net insurance contract benefits and claims (Notes 11 and 17)	69,091,834	78,825,083
Commission expense (Note 8)	141,051,480	154,132,860
General expenses (Note 18)	76,201,042	65,284,437
Foreign currency exchange (gains) losses	(6,473,372)	195,886
Interest expense (Note 12)	214,038	-
Other expenses	210,993,188	219,613,183
Total insurance contract and other expenses	280,085,022	298,438,266
INCOME BEFORE INCOME TAX	43,949,747	12,848,129
PROVISION FOR INCOME TAX (Note 19)	10,710,192	2,713,554
NET INCOME	P33,239,555	P10,134,575

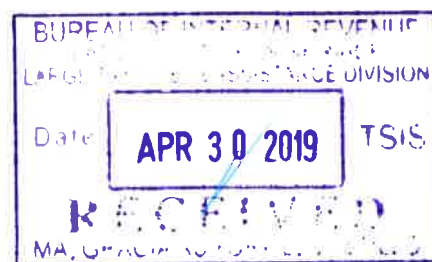
See accompanying Notes to Financial Statements.



PGA SOMPO INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
NET INCOME	₱33,239,555	₱10,134,575
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>		
Changes in the fair values of available-for-sale financial assets (Note 6)	14,942,528	(1,590,487)
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement losses on defined benefit plan, net of tax (Note 14)	(736,122)	(895,185)
Total other comprehensive income (loss)	14,206,406	(2,485,672)
TOTAL COMPREHENSIVE INCOME	₱47,445,961	₱7,648,903

See accompanying Notes to Financial Statements.



PGA SOMPO INSURANCE CORPORATION
STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Notes 21 and 24)	Deposits for future stock subscriptions	Contributed Surplus	Revaluation Reserve on Available-for- sale Financial Assets (Note 6)	Remeasurement on Defined Benefit Plan (Note 14)	Retained Earnings	Total
At January 1, 2018	₱650,000,000	₱-	₱4,666,000	₱35,552,736	(₱2,123,655)	₱44,366,513	₱732,461,594
Net income for the year	-	-	-	-	-	33,239,555	33,239,555
Other comprehensive income	-	-	-	14,942,528	(736,122)	-	14,206,406
Total comprehensive income for the year	-	-	-	14,942,528	(736,122)	33,239,555	47,445,961
At December 31, 2018	₱650,000,000	₱-	₱4,666,000	₱50,495,264	(₱2,859,777)	₱77,606,068	₱779,907,555
At January 1, 2017	₱300,000,000	₱350,000,000	₱4,666,000	₱37,143,223	(₱1,228,470)	₱34,231,938	₱724,812,691
Deposits for future stock subscriptions	350,000,000	(350,000,000)	-	-	-	-	-
Net income for the year	-	-	-	-	-	10,134,575	10,134,575
Other comprehensive loss	-	-	-	(1,590,487)	(895,185)	-	(2,485,672)
Total comprehensive income (loss) for the year	-	-	-	(1,590,487)	(895,185)	10,134,575	7,648,903
At December 31, 2017	₱650,000,000	₱-	₱4,666,000	₱35,552,736	(₱2,123,655)	₱44,366,513	₱732,461,594

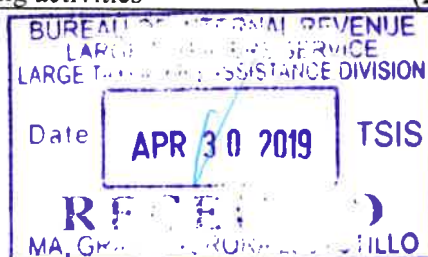
See accompanying Notes to Financial Statements.



PGA SOMPO INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS

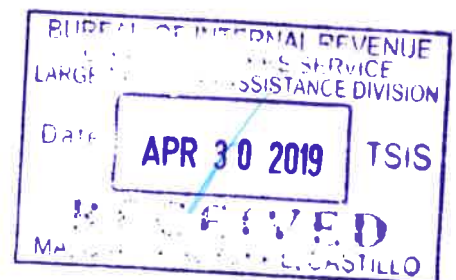
	December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱43,949,747	₱12,848,129
Adjustments for:		
Interest income (Note 16)	(27,038,932)	(16,879,419)
Provision for credit and impairment losses (Notes 5 and 10)	8,892,574	-
Foreign currency exchange losses (gains)	(6,473,372)	195,886
Fair value losses on financial assets at fair value through profit or loss (Notes 6 and 16)	4,110,924	311,364
Depreciation and amortization (Notes 9 and 18)	3,282,925	1,927,072
Dividend income (Note 16)	(331,771)	(2,660)
Interest expense	214,038	-
Loss (gain) on sale of property and equipment (Note 9)	1,000	(1,563,035)
Operating income (loss) before working capital changes	26,607,133	(3,162,663)
Changes in assets and liabilities:		
Decrease (increase) in:		
Reinsurance assets	228,713,507	(1,882,674,120)
Short-term investments	(164,472,651)	(238,053,167)
Insurance receivables	(144,115,365)	(95,622,028)
Financial assets at FVPL	45,290,378	(22,601,950)
Loans and receivables	(23,462,454)	(52,548,685)
Deferred acquisition costs	16,508,588	(37,183,781)
Other assets	(10,854,796)	(8,934,567)
Increase (decrease) in:		
Insurance payables	275,647,256	166,305,310
Insurance contract liabilities	(182,793,045)	1,877,122,699
Accounts payable and accrued expenses	(24,052,216)	(6,055,697)
Deferred reinsurance commissions	7,665,215	41,982,947
Net pension benefit obligation	24,013	(9,407,754)
Net cash provided by (used in) operations	50,705,563	(270,833,456)
Interest received	27,012,934	15,885,918
Dividends received	331,771	2,660
Income tax paid	7,063,544	(3,155,844)
Interest paid	(214,038)	-
Net cash provided by (used in) operating activities	84,899,774	(258,100,722)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment (Note 9)	20,000	1,563,035
Acquisitions of:		
HTM financial assets (Note 6)	(221,861,762)	-
Property and equipment (Note 9)	(11,637,787)	(3,518,352)
Available-for-sale financial assets (Note 6)	-	(22,676,704)
Net cash provided by (used in) investing activities	(233,479,549)	(24,632,021)

(Forward)



	Years Ended December 31	
	2018	2017
NET DECREASE IN CASH AND CASH EQUIVALENTS	(₱148,579,775)	(₱282,732,743)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	357,650,474	640,383,217
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱209,070,699	₱357,650,474

See accompanying Notes to Financial Statements



PGA SOMPO INSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

PGA Sampo Insurance Corporation (the Company) is a joint venture of two of Asia's leading nonlife insurance organizations, Prudential Guarantee and Assurance Incorporated (PGAI) (through its major shareholders) and Sampo Japan Nipponkoa Holdings, Inc. The Company is engaged in the business and operation of all kinds of insurance on sea, land and air, on properties, goods and merchandise, on transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company was registered with the Securities and Exchange Commission (SEC) on September 25, 1959. On July 6, 2009, it was approved by at least a majority of the Board of Directors (BOD) and the stockholders owning and representing at least two-thirds (2/3) of the outstanding capital stock, that the Articles of Incorporation of the Company will be amended to extend the existence of the Company for another fifty (50) years from its original expiry date. The SEC approved the Amended Articles of Incorporation on September 8, 2009.

On August 14, 2014, it was approved by at least a majority of the BOD and by the vote of the stockholders owning or representing at least two-thirds (2/3) of the outstanding capital stock that the Articles of Incorporation of the Company will be amended to change the corporate name from PGA Sampo Japan Insurance, Inc. to PGA Sampo Insurance Corporation. The SEC approved the Amended Articles of Incorporation on January 12, 2015.

The registered office address of the Company is 5th Floor Corinthian Plaza Building, 121 Paseo de Roxas, Legaspi Village, Makati City.

The accompanying financial statements were approved and authorized for issue by the BOD of the Company on April 29, 2019.

2. Summary of Significant Accounting Policies

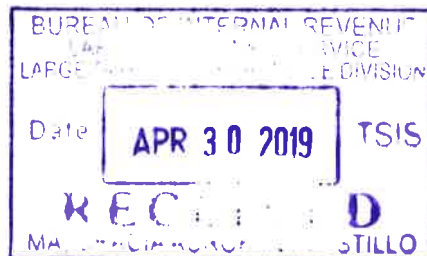
Basis of Preparation

The financial statements have been prepared using the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value.

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

Statement of Compliance

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



Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new accounting pronouncements starting January 1, 2018. The adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- PFRS 15, *Revenue from Contracts with Customers*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*

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

Qualification to apply temporary exemption

The Company applies the temporary exemption from PFRS 9 as permitted by the Amendments to PFRS 4, *Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts* issued in September 2016. The temporary exemption permits the Company to continue applying PAS 39, *Financial Instruments: Recognition and Measurement* rather than PFRS 9 for annual periods beginning before January 1, 2022. In 2018, the Company performed an assessment of the amendments and concluded that it qualified for the temporary exemption from PFRS 9 because its activities are predominantly connected with insurance. As at December 31, 2015, the Company's gross liabilities arising from contracts within the scope of PFRS 4 represented 93.67% of the total carrying amount of all its liabilities. Since December 31, 2015, there has been no change in the activities of the Company that requires reassessment of the use of temporary exemption.

Comparison of insurers applying temporary exemption with entities applying PFRS 9

The table below presents the analysis of the fair value of classes financial assets as of December 31, 2018, as well as the corresponding changes in fair value for the year ended December 31, 2018. The financial assets are divided into two categories:

- Assets for which their contractual cash flows represent solely payments of principal and interest (SPPI), excluding any financial assets that are held for trading or that are managed and whose performance is evaluated on a fair value basis; and
- All financial assets other than those specified in SPPI above (i.e. those for which contractual cash flows do not represent SPPI, assets that are held for trading and assets that are managed and whose performance is evaluated on a fair value basis).



Financial assets	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Cash and cash equivalents*	₱209,070,699	₱-	₱-	₱-
Short-term investments*	407,317,613	-	-	-
Financial assets at FVPL	128,419,883	(4,110,924)	-	-
AFS financial assets	-	-	87,091,519	23,957,527
HTM financial assets	214,535,551	(7,660,475)	-	-
Loans and receivables (excluding long-term investments)*	113,032,138	-	-	-
Long-term investments	68,682,838	(4,021,711)	-	-

*Amortized cost of these financial assets have been used as a reasonable approximation of fair value

The following table shows the carrying amount of the SPPI financial assets included in the table above by credit risk rating grades reported to key management personnel. The carrying amount is measured in accordance with PAS 39.

	High grade	Medium grade	Low grade	Past due but not impaired	Impaired	Total
Financial assets						
Cash and cash equivalents	₱209,070,699	₱-	₱-	₱-	₱-	₱209,070,699
Short-term investments	407,317,613	-	-	-	-	407,317,613
Financial assets at FVPL	128,419,883	-	-	-	-	128,419,883
HTM financial assets*	222,196,026	-	-	-	-	222,196,026
Loans and receivables*	81,531,950	31,500,188	-	-	-	113,032,138
	₱1,048,536,171	₱31,500,188	₱-	₱-	₱-	₱1,080,036,359

*gross of allowance for credit losses

The Company did not identify any SPPI financial asset that does not have low credit risk.

Product Classification

Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts

Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or have expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Foreign Currency Transactions and Translations

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are recognized in profit or loss, except where it relates to equity securities where gains or losses are recognized in Other Comprehensive Income (OCI).



Fair Value Measurement

The Company measures financial assets at FVPL and AFS financial assets at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 22.

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.



Insurance Receivables

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

Insurance receivables are derecognized under the derecognition criteria of financial assets.

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, loans and receivables and held to maturity (HTM) financial assets. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every end of the reporting period.

As of December 31, 2018 and 2017, the Company's financial instruments are in the nature of financial assets at FVPL, AFS financial assets, loans and receivables, HTM financial assets and other financial liabilities.

Financial assets at FVPL

This category consists of financial assets that are held for trading or designated by management as at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or (b) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset contains an embedded derivative that would need to be separately recorded.

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

The Company's financial assets at FVPL as of December 31, 2018 and 2017 consist of treasury bills and notes denominated in Philippine Peso which were designated as at FVPL upon initial recognition.



AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated as FVPL, HTM or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value.

The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in statement of income. Interest earned on holding AFS debt securities are recorded as interest income under "Investment and other income" account in the statement of income using the EIR.

Dividends earned on holding AFS equity securities are recognized in profit or loss when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Revaluation reserve on available-for-sale financial assets" in the equity section of the statement of financial position. The losses arising from impairment are charged to profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

Where the Company holds more than one investment in the same security, the cost used is determined using the weighted average method.

The Company's AFS financial assets as of December 31, 2018 and 2017 consist of club shares and quoted equity securities which are not held for trading.

HTM financial assets

HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM financial assets before their maturity, the entire category would be tainted and reclassified as AFS investments unless for sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Once tainted, the Company is not permitted to classify any of its financial assets as HTM financial assets for the next two fiscal years after the year of reclassification.

After initial measurement, these investments are subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. Gains and losses are recognized in profit or loss in the statement of income when the HTM financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in profit or loss in the statement of income under 'Provision for credit and impairment losses'.



Loans and receivables

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

After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and fees that are integral part of EIR. The amortization is recorded as part of interest income under "Investment and other income" in the statements of income. The loss arising from impairment of such loans and receivables are recognized in profit or loss.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of profit or loss.

This accounting policy applies principally to the Company's "Insurance payables" and "Accounts payable and accrued expenses".

Impairment of Financial Assets

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

AFS financial assets

In case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in equity - is removed from equity and recognized in the statements of income. Impairment losses on equity investments are not reversed through the statement of profit or loss. Increases in fair value after impairment are recognized directly in OCI.



In case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recognized in profit or loss. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

HTM financial assets

The Company assesses at each statement of financial position date whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted using the financial asset's original EIR. If a financial asset carried at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. Impairment loss is recognized in statement of income.

Loans and receivables

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original EIR. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of profit or loss. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Offsetting Financial Instruments

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



simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Derecognition of Financial Assets and Liabilities

Financial assets

Financial assets (or where applicable a part of a financial asset or part of a group of a similar financial assets) are derecognized when: (a) the rights to receive cash flows from the asset have expired; (b) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or (c) the Company has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

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

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent recoverable loss balances due from insurance and reinsurance companies and the deferred reinsurance premiums. Recoverable amounts are estimated in a manner consistent with the claims provision and in accordance with the reinsurance contracts.

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

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

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

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



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

When the Company enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Company initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability, which is presented as "Insurance payables" in the liabilities section of the statement of financial position, will be withheld and recognized as funds held for reinsurers and included also as part of the "Insurance payables" in the liabilities section of the statement of financial position.

Deferred Acquisition Costs (DAC)

Commission and other acquisition costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged to expense in proportion to the premium revenue recognized. These costs are amortized on a straight-line basis using the 24th method over the life of the contract. Amortization is charged against profit or loss. The unamortized acquisition costs are shown in the assets section of the statement of financial position as "Deferred acquisition costs". All other acquisition costs are recognized as incurred.

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

Property and Equipment

All items of property and equipment, which include owner-occupied properties, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of the property and equipment comprises its purchase price, nonrefundable taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of the related property and equipment.

Depreciation is provided on a straight-line basis over the estimated useful lives of the individually significant components of property and equipment. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful life.

The estimated useful lives of the individually significant components of property and equipment follow:

	<u>In Years</u>
Office furniture, fixtures and equipment	5
Leasehold improvements	5
Transportation equipment	5
Computer equipment	5



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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, which is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statement of profit or loss in the year the asset is derecognized.

Impairment of Nonfinancial Assets

At each end of the reporting period, the Company assesses whether there is any indication that its nonfinancial assets (e.g., property and equipment) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged against operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged against the revaluation increment of the said asset.

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

Creditable Withholding Taxes (CWTs)

Creditable withholding taxes pertain to the taxes paid by the Company withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost as an asset under "Other assets" account.

At each end of the tax reporting deadline, these CWTs may either be offset against future tax income payable or be claimed as a refund from the taxation authorities at the option of the Company. If these CWTs are claimed as a refund, these will be recorded as a receivable under "Loans and receivables" account.

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



Value-Added Tax (VAT)

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

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

Insurance Contracts Liabilities

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired, is deferred as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the statement of financial position. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The change in the provision for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provisions and incurred but not reported (IBNR) losses

Provision for claims reported and claims incurred but not reported (IBNR) are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period.

The liability is not discounted for the time value of money and includes provision for IBNR losses. The IBNR is calculated at the reporting date using a range of actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. The liability is derecognized when the contract is discharged, cancelled or has expired.

Liability adequacy test

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related DAC assets. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Net Pension Benefit Obligation

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

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



Defined benefit costs comprise the following:

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

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

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

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

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

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

Equity

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

Contributed surplus includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from contributed surplus.

Retained earnings include all the accumulated earnings of the Company less dividends declared.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits associated with the transaction will flow to the Company and the revenue can be reliably measured.



The Company follows a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

- a. Identify the contract(s) with a customer
- b. Identify the performance obligations in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligation in the contract
- e. Recognize revenue when (or as) the entity satisfies a performance obligation

Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company exercises its judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Premium income

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

Premiums are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written and assumed that relate to the unexpired periods of the policies as of reporting date are accounted for as provision for unearned premiums and presented in the liabilities section of the statement of financial position under "Insurance contract liabilities" account. The related reinsurance premiums that pertain to the unexpired periods at reporting date are accounted for as deferred reinsurance premiums which are presented in the assets section of the statement of financial position under "Reinsurance assets". The net changes in these accounts between reporting dates are charged against or credited to profit or loss for the year.

Commission income

Commissions are recognized as revenue over the period of contracts using the 24th method. 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 presented in the liabilities section of the statement of financial position.

Interest income

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the effective interest rate method.

Dividend income

Dividend income is recognized when the Company's right to receive the payment is established.

Benefits and Claims

Gross benefits and claims consists of benefits and claims paid to policyholders as well as changes in the gross valuation of "Insurance contract liabilities", except for gross changes in the provision for unearned premiums which are included in net premiums earned. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims.



Amounts receivable in respect to salvage and subrogation are also considered and are offset against the related claim. General insurance claims are recorded in the basis of notifications received.

Other Expenses

General expenses and interest expense are recognized in profit or loss as they are incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

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

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Income Tax

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of MCIT and unused NOLCO can be utilized.



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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Movements in the deferred tax assets and liabilities arising from changes in tax rates are charged against or credited to profit or loss for the period.

Current tax and deferred tax relating to items directly recognized in equity are also recognized directly in equity and not in profit or loss.

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

Provisions

Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Events after the Reporting Period

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

Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
Under PFRS 9, a debt instrument can be measured at AC or at FVTOCI, provided that the contractual cash flows are SPPI and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI



criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*

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

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

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

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.



The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- *Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures*
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

- *Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments*
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

This interpretation is not relevant to the Company because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs 2015-2017 Cycle*
 - *Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.



A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

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

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Fund because dividends declared by the Company do not give rise to tax obligations under the current tax laws.

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

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Company.



- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2022

- PFRS 17, *Insurance Contracts*
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2022, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Parent company Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council (FRSC) deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



3. Significant Accounting Judgments and Estimates

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

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

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates and assumptions, which have the most significant effects on the amounts recognized in the financial statements.

Classification of financial assets

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

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Claims liability arising from insurance contracts

For nonlife insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of the IBNR claims at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position claims provision.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as chain ladder, expected loss ratio and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.



The carrying value of provision for claims reported and loss adjustment expenses amounted to ₱1,888.69 million and ₱2,169.07 million as of December 31, 2018 and 2017, respectively. Provision for IBNR claims amounted to ₱30.36 million and ₱10.46 million as of December 31, 2018 and 2017, respectively (see Note 11).

Estimation of allowance for impairment losses on receivables

The Company maintains an allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates.

The carrying value of insurance receivables amounted to ₱706.24 million and ₱557.53 million as of December 31, 2018 and 2017, respectively. The allowance for doubtful accounts for insurance receivables amounted to ₱2.49 million and ₱0.31 million as of December 31, 2018 and 2017 (see Note 5).

The carrying value of loans and receivables amounted to ₱113.03 million and ₱90.21 million as of December 31, 2018 and 2017, respectively. The allowance for doubtful accounts for loans and receivables is nil as of December 31, 2018 and 2017 (see Note 6).

Estimation of useful lives of property and equipment

The Company reviews annually the estimated useful lives of property and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

As of December 31, 2018 and 2017, the carrying value of the Company's property and equipment amounted to ₱14.62 million and ₱6.29 million, respectively (see Note 9).

Recognition of deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

The carrying value of recognized net deferred tax assets amounted to ₱4.21 million and ₱16.55 million as of December 31, 2018 and 2017, respectively (see Note 19). There are no unrecognized deferred tax assets for December 31, 2018 and 2017.

Estimation of pension benefit obligation

The determination of pension obligation and cost of pension 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 this plan, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately in OCI in the period in which they arise. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may affect the pension obligations.

The carrying value of net pension benefit obligation as of December 31, 2018 and 2017 amounted to ₱3.77 million and ₱3.75 million, respectively (see Note 14).

Contingencies

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels and based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material adverse effect on the Company's financial position. It is possible, however, that the results of operations could be materially affected by changes in the estimates.

4. **Cash and Cash Equivalents and Short-term Investments**

Cash and cash equivalents

This account consists of:

	2018	2017
Cash on hand	₱40,000	₱40,000
Cash in banks	138,861,267	140,770,162
Cash equivalents	70,169,432	216,840,312
	₱209,070,699	₱357,650,474

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are placed for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the prevailing short-term investments rates ranging from 1.00% to 4.75%. Interest income earned from cash and cash equivalents amounted to ₱2.74 million and ₱8.82 million in 2018 and 2017, respectively (see Note 16).

Short-term investments

The rollforward analysis of this account follows:

	2018	2017
At January 1	₱242,844,962	₱4,972,000
Acquisitions	331,874,421	264,968,240
Maturities	(167,846,559)	(26,915,073)
Foreign exchange gains (losses)	444,789	(180,205)
At December 31	₱407,317,613	₱242,844,962

Short-term investments pertain to time deposits with terms of more than 90 days but less than 360 days and earn interest at the respective short-term investment rates ranging from 0.75% to 4.75%.



Interest income amounted to ₱10.91 million and ₱1.47 million in 2018 and 2017, respectively (see Note 16).

Interest accrued from cash and cash equivalents and short-term investments amounted to ₱5.81 million and ₱1.08 million as of December 31, 2018 and 2017, respectively (see Note 6).

5. Insurance Receivables - net

This account consists of:

	2018	2017
Due from policyholders	₱312,563,438	₱235,708,197
Due from ceding companies	363,424,353	289,133,900
Reinsurance recoverable on paid losses:		
Facultative reinsurers	23,590,068	19,651,636
Treaty reinsurers	9,145,312	13,341,749
	708,723,171	557,835,482
Less allowance for credit losses	(2,486,931)	(305,773)
	₱706,236,240	₱557,529,709

The aging analysis of insurance receivables follows:

	2018						Total
	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	
Due from policyholders	₱116,069,556	₱36,714,787	₱9,081,035	₱16,972,094	₱68,445,134	₱65,280,832	₱312,563,438
Due from ceding companies	260,370,814	2,269,579	6,985,299	18,813,879	59,858,463	15,126,319	363,424,353
Reinsurance recoverable on paid losses	3,604,817	272,534	1,612,798	97,142	15,426,583	11,721,506	32,735,380
	₱380,045,187	₱39,256,900	₱17,679,132	₱35,883,115	₱143,730,180	₱92,128,657	₱708,723,171

	2017						Total
	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	
Due from policyholders	₱96,146,418	₱27,059,550	₱9,928,125	₱17,182,392	₱73,840,204	₱11,551,508	₱235,708,197
Due from ceding companies	1,475,471	182,289,376	3,047,956	34,204,017	41,254,175	26,862,905	289,133,900
Reinsurance recoverable on paid losses	72,104	5,954,783	344,420	544,865	15,734,390	10,342,823	32,993,385
	₱97,693,993	₱215,303,709	₱13,320,501	₱51,931,274	₱130,828,769	₱48,757,236	₱557,835,482

Movement in the Company's allowance for credit losses follows:

	2018	2017
At January 1	₱305,773	₱305,773
Provision for credit losses	2,181,158	-
At December 31	₱2,486,931	₱305,773



6. Financial Assets

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

	2018	2017
Financial assets at FVPL	₱128,419,883	₱177,821,185
AFS financial assets	87,091,519	63,133,992
HTM financial assets	222,196,026	-
Loans and receivables	113,032,138	90,209,722
	₱550,739,566	₱331,164,899

a) Financial Assets at FVPL

As of December 31, 2018 and 2017, treasury bills and notes classified as financial assets at FVPL with total carrying value amounting to ₱128.42 million and ₱177.82 million, respectively, are deposited with the Insurance Commission (IC) in accordance with the provision of the Insurance Code (the Code) as security for the benefit of policyholders and creditors of the Company. The carrying amounts of these investments are equal to their fair values. The interest rates of these investments range from 2.13% to 7.25% in 2018 and in 2017.

Interest earned from treasury bills and notes classified as financial assets at FVPL amounted to ₱5.37 million and ₱5.34 million in 2018 and in 2017, respectively (see Note 16). Interest accrued from these investments amounted to ₱1.14 million and ₱1.51 million as of December 31, 2018 and 2017, respectively.

The rollforward analysis of financial assets at FVPL follows:

	2018	2017
At January 1	₱177,821,185	₱155,530,599
Acquisitions	-	52,901,950
Fair value losses (Note 16)	(4,110,924)	(311,364)
Maturities/Disposals	(45,290,378)	(30,300,000)
At December 31	₱128,419,883	₱177,821,185

b) AFS financial assets

This account consists of:

	2018	2017
<i>Quoted securities - at fair value</i>		
Listed equity securities	₱22,091,519	₱21,133,992
Golf club shares	65,000,000	42,000,000
	₱87,091,519	₱63,133,992

The rollforward analysis of AFS financial assets follows:

	2018	2017
At January 1	₱63,133,992	₱42,047,775
Acquisitions	-	22,676,704
Fair value gains (losses) recognized in OCI	23,957,527	(1,590,487)
At December 31	₱87,091,519	₱63,133,992



The rollforward analysis of the revaluation reserve of AFS financial assets follows:

	2018	2017
At January 1	P35,552,736	P37,143,223
Fair value gains (losses) recognized in OCI, net of tax effect	14,942,528	(1,590,487)
At December 31	P50,495,264	P35,552,736

c) *HTM financial assets*

The rollforward analysis of HTM financial assets follows:

	2018
At January 1	P-
Acquisitions	221,861,762
Amortization of discount	334,264
At December 31	P222,196,026

Interest earned from treasury bills and notes classified as HTM financial assets amounted to P6.63 million in 2018 (see Note 16). Interest accrued amounted to P1.22 million as of December 31, 2018 and 2017, respectively.

d) *Loans and receivables*

This account consists of:

	2018	2017
Long-term investments	P72,704,549	P54,744,185
Accounts receivable	22,588,852	22,621,002
Interest receivables	8,827,402	2,831,600
Cash advances	5,460,199	6,021,799
Miscellaneous deposits	2,920,000	2,820,000
Rental deposits	531,136	1,171,136
	P113,032,138	P90,209,722

Long-term investments are money market placements made for varying periods of more than one year and earned interest ranging from 2.13% to 2.50% and from 2.50% to 3.00% in 2018 and 2017, respectively. Interest income amounted to P1.40 million and P1.25 million in 2018 and 2017, respectively (see Note 16). Interest accrued amounted to P0.66 million and P0.23 million as of December 31, 2018 and 2017, respectively.

Accounts receivable includes monitoring fees for Coface and membership fees for Medicaid, in which the Company collects from the assured and subsequently remits to Medicaid and the cost is allocated to Sompo Japan by way of reimbursement.

Cash advances includes car plans availed by managerial employees. Outstanding balances of the car plans which will mature in 2019 amounted to P0.91 million and P1.46 million as of December 31, 2018 and 2017, respectively.



7. Reinsurance Assets

This account consists of:

	2018	2017
Reinsurance recoverable on unpaid losses (Note 11)	₱1,860,354,416	₱2,148,033,283
Deferred reinsurance premiums (Note 11)	800,920,108	741,954,748
	₱2,661,274,524	₱2,889,988,031

8. Deferred Acquisition Costs and Deferred Reinsurance Commissions

Deferred Acquisition Costs

The rollforward analysis of this account follows:

	2018	2017
At January 1	₱78,653,782	₱41,470,001
Cost deferred during the year	124,542,892	191,316,641
Amortization during the year	(141,051,480)	(154,132,860)
At December 31	₱62,145,194	₱78,653,782

Deferred Reinsurance Commissions

The rollforward analysis of this account follows:

	2018	2017
At January 1	₱109,021,607	₱67,038,660
Income deferred during the year	239,174,827	251,769,497
Amortization during the year	(231,509,612)	(209,786,550)
At December 31	₱116,686,822	₱109,021,607

9. Property and Equipment - net

The rollforward analysis of this account as of December 31 follows:

	2018				
	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Computer Equipment	Total
Cost					
Balance at beginning of year	₱7,101,770	₱3,961,946	₱7,747,968	₱22,726,227	₱41,537,911
Additions	419,840	352,353	8,236,159	2,629,435	11,637,787
Disposals	-	-	(2,633,393)	-	(2,633,393)
Balance at end of year	7,521,610	4,314,299	13,350,734	25,355,662	50,542,305



2018					
	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Computer Equipment	Total
Accumulated depreciation					
Balance at beginning of year	6,020,998	2,951,273	6,234,084	20,042,846	35,249,201
Depreciation (Note 18)	314,149	243,258	1,716,718	1,008,800	3,282,925
Disposals	-	-	(2,612,393)	-	(2,612,393)
Balance at end of year	6,335,147	3,194,531	5,338,409	21,051,646	35,919,733
Net book value					
December 31, 2018	₱1,186,463	₱1,119,768	₱8,012,325	₱4,304,016	₱14,622,572
2017					
	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Computer Equipment	Total
Cost					
Balance at beginning of year	₱6,604,507	₱2,907,105	₱12,327,950	₱21,881,239	₱43,720,801
Additions	497,263	1,054,841	1,121,260	844,988	3,518,352
Disposals	-	-	(5,701,242)	-	(5,701,242)
Balance at end of year	7,101,770	3,961,946	7,747,968	22,726,227	41,537,911
Accumulated depreciation					
Balance at beginning of year	5,766,719	2,844,883	11,019,762	19,392,007	39,023,371
Depreciation (Note 18)	254,279	106,390	915,564	650,839	1,927,072
Disposals	-	-	(5,701,242)	-	(5,701,242)
Balance at end of year	6,020,998	2,951,273	6,234,084	20,042,846	35,249,201
Net book value December 31, 2017	₱1,080,772	₱1,010,673	₱1,513,884	₱2,683,381	₱6,288,710

In 2018 and 2017, the Company disposed of certain assets which resulted to gain (loss) on sale of property and equipment amounting to (₱1,000) and ₱1.56 million. Cost of fully depreciated property and equipment still being used amounted to ₱29.13 million and ₱25.51 million as of December 31, 2018 and 2017, respectively.

10. Other Assets

This account consists of:

	2018	2017
Creditable withholding taxes	₱89,967,448	₱72,940,835
Documentary stamps fund	9,908,040	22,637,944
Prepaid expenses	320,176	-
Security fund	39,964	39,964
	100,235,628	95,618,743
Allowance for impairment losses	(54,354,948)	(53,914,261)
	₱45,880,680	₱41,704,482

Creditable withholding taxes represent the taxes withheld at source by the counterparty which can be applied against future income tax liability.



11. Insurance Contract Liabilities and Reinsurance Assets

Analysis of short-term insurance contract liabilities net of reinsurance assets follows:

	2018			2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2018	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2017
Provision for claims reported and loss adjustment expenses	₱1,888,691,638	₱1,860,354,416	₱28,337,222	₱2,169,070,353	₱2,148,033,283	₱21,037,070
Provision for IBNR claims (Forward)	30,357,972	–	30,357,972	10,463,182	–	10,463,182
Total provision for claims reported and IBNR claims (Note 21)	1,919,049,610	1,860,354,416	58,695,194	2,179,533,535	2,148,033,283	31,500,252
Provision for unearned premiums	854,199,758	800,920,108	53,279,650	776,508,878	741,954,748	34,554,130
Total insurance contract liabilities	₱2,773,249,368	₱2,661,274,524	₱111,974,844	₱2,956,042,413	₱2,889,988,031	₱66,054,382

Provision for claims reported and IBNR claims may be analyzed as follows:

	2018			2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2018	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2017
Balance at beginning of year	₱2,179,533,535	₱2,148,033,283	₱31,500,252	₱345,043,461	₱328,936,395	₱16,107,066
Claims incurred during the year	796,769,641	747,572,598	49,197,043	3,172,241,596	3,101,854,150	70,387,446
Increase (decrease) in IBNR claims	19,894,790	–	19,894,790	8,437,637	–	8,437,637
Claims paid during the year (Note 17)	(1,077,148,356)	(1,035,251,465)	(41,896,891)	(1,346,189,159)	(1,282,757,262)	(63,431,897)
Balance at end of year	₱1,919,049,610	₱1,860,354,416	₱58,695,194	₱2,179,533,535	₱2,148,033,283	₱31,500,252

Provision for unearned premiums may be analyzed as follows:

	2018			2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2018	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2017
Balance at beginning of year	₱776,508,878	₱741,954,748	₱34,554,130	₱733,876,253	₱678,377,516	₱55,498,737
New policies written during the year (Note 15)	1,852,450,259	1,768,757,978	83,692,281	1,558,861,447	1,500,487,314	58,374,133
Premiums earned during the year (Note 15)	(1,774,759,379)	(1,709,792,618)	(64,966,761)	(1,516,228,822)	(1,436,910,082)	(79,318,740)
Balance at end of year	₱854,199,758	₱800,920,108	₱53,279,650	₱776,508,878	₱741,954,748	₱34,554,130



12. Insurance payables

This account consists of due to reinsurers and ceding companies amounting to ₱649.79 million and ₱583.03 million as of December 31, 2018 and 2017, respectively.

The rollforward analysis of insurance payables follows:

	2018				2017		
	Due to Policyholders	Due to reinsurers and ceding companies	Funds held for reinsurers	Total	Due to reinsurers and ceding companies	Funds held for reinsurers	Total
At January 1	P-	₱583,029,523	₱46,148,680	₱629,178,203	₱462,872,893	P-	₱462,872,893
Arising during the year (Note 15)	6,527,164	1,768,757,978	267,767,242	2,043,052,384	1,500,487,314	46,148,680	1,546,635,994
Settled	-	(1,701,995,760)	(65,409,368)	(1,767,405,128)	(1,380,330,684)	-	(1,380,330,684)
At December 31	₱6,527,164	₱649,791,741	₱248,506,554	₱904,825,459	₱583,029,523	₱46,148,680	₱629,178,203

13. Accounts Payable and Accrued Expenses

This account consists of:

	2018	2017
Commission payable	₱29,261,404	₱28,860,367
Output VAT	17,285,525	7,577,026
Customers' deposits	12,322,971	16,182,729
Accounts payable	11,216,649	15,170,972
Taxes payable	9,448,145	19,729,740
Accrued expenses	3,185,816	4,225,078
Others	331,076	179,198
	₱83,051,586	₱91,925,110

Commission payable pertains to unpaid commissions on the Company's direct business, payable to agents and brokers, which are due upon the collection of the related premiums receivable.

Taxes payable consists of taxes and licenses payable, documentary stamps, withholding taxes and other taxes.

Customers' deposits are advanced premium collections from policyholders which will be recognized as premium income upon the inception of the policies.

Accounts payable and accrued expenses are expected to be settled within twelve (12) months after the end of the reporting period.

Output VAT is mainly composed of VAT due from premium income and reinsurance commission earned.



14. Net Pension Benefit Obligation

The Company has a funded, noncontributory, defined benefit retirement plan covering substantially all of its employees. Under the existing regulatory framework, Republic Act No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following tables summarize the components of the "Net pension benefit expense" recognized in the statement of income, under "General expenses" account (see Note 18), "Remeasurements on defined benefit plan" recognized in the statement of comprehensive income, and the unfunded status recognized in the statement of financial position for the retirement plan.

Net pension benefit expense

	2018	2017
Current service cost	₱1,547,560	₱1,294,290
Net interest cost	211,549	597,554
Net benefit expense (Note 18)	₱1,759,109	₱1,891,844

Remeasurement effects to be recognized in OCI

	2018	2017
Actuarial gain (loss):		
Due to change in financial assumption	₱982,072	(₱590,817)
Due to experience	(1,503,291)	(460,266)
Due to change in demographic assumption	-	(145,452)
	(521,219)	(1,196,535)
Actuarial loss on plan assets	(530,385)	(82,300)
Total losses to be recognized in OCI	(1,051,604)	(1,278,835)
Deferred tax effect	315,482	383,650
Total losses to be recognized in OCI, net of tax effect	(₱736,122)	(₱895,185)

Changes in net pension benefit obligation as of December 31, 2018 and 2017 follow:

	2018		
	Present Value of Pension Obligation	Fair Value of Plan Assets	Net Pension Liability (Asset)
At January 1	₱10,780,593	(₱7,029,713)	₱3,750,880
Expense recognized in statements of income:			
Current service cost	1,547,560	-	1,547,560
Net interest cost	608,025	(396,476)	211,549
	2,155,585	(396,476)	1,759,109
Benefits paid	(1,158,150)	1,158,150	-
Benefits paid from Company's operational assets	(1,786,700)	-	(1,786,700)
Contributions	-	(1,000,000)	(1,000,000)
Remeasurements in OCI:			
Loss on plan asset	-	530,385	530,385
Actuarial changes arising from:			
Changes in financial assumptions	(982,072)	-	(982,072)
Experience adjustments	1,503,291	-	1,503,291
	521,219	530,385	1,051,604
At December 31	₱10,512,547	₱6,737,654	₱3,774,893



	2017		
	Present Value of Pension Obligation	Fair Value of Plan Assets	Net Pension Liability (Asset)
At January 1	₱14,445,459	(₱2,565,660)	₱11,879,799
Expense recognized in statements of income:			
Current service cost	1,294,290	-	1,294,290
Net interest cost	726,607	(129,053)	597,554
	2,020,897	(129,053)	1,891,844
Benefits paid	(3,582,700)	3,582,700	-
Benefits paid from Company's operational assets	(3,299,598)	-	(3,299,598)
Contributions	-	(8,000,000)	(8,000,000)
Remeasurements in OCI			
Loss on plan asset	-	82,300	82,300
Actuarial changes arising from:			
Changes in financial assumptions	590,817	-	590,817
Due to change in demographic assumption	145,452	-	145,452
Experience adjustments	460,266	-	460,266
	1,196,535	82,300	1,278,835
At December 31	₱10,780,593	₱7,029,713	₱3,750,880

The distribution of plan assets as of December 31, 2018 and 2017 follows:

	2018	2017
Investments in government securities	₱6,433,635	₱6,289,933
Accrued interest income	62,219	75,404
Savings and time deposits	251,637	673,489
	6,747,491	7,038,826
Less trust fund fees payable	9,837	9,113
	₱6,737,654	₱7,029,713

The principal actuarial assumptions used determining pension benefit obligation are as follows:

	2018	2017
Salary increase rate	5.00%	5.00%
Discount rate	7.37%	5.64%

The Company expects to contribute ₱1.50 million to its defined benefit plan in 2019.

Sensitivity analysis

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

		2018	2017
	Change in variables	Increase (Decrease)	Increase (Decrease)
Discount rate	+0.5%	(₱181,611)	(₱274,618)
	-0.5%	203,573	315,548
Salary increase rate	+1.0%	465,198	663,466
	-1.0%	(342,512)	(497,390)



Maturity profile

Shown below is the maturity analysis of the undiscounted benefits payments as of December 31, 2018:

	2018	2017
Less than one year	P3,905,306	P5,316,961
More than one year to five years	6,331,898	4,036,485
More than five years to 10 years	4,592,128	4,868,261
More than 10 years to 15 years	8,780,491	8,927,424
More than 15 years to 20 years	8,047,212	8,075,471
More than 20 years	124,492,598	102,937,388
	P156,149,633	P134,161,990

The average duration of the defined benefit obligation at the end of the reporting period is 21 years.

15. Net Premiums Earned

Net premiums earned on insurance contracts are as follows:

	2018	2017
Gross premiums on insurance contracts:		
Direct insurance	P1,229,978,534	P671,729,985
Assumed reinsurance	622,471,725	887,131,462
Total gross premiums on insurance contracts (Note 11)	1,852,450,259	1,558,861,447
Gross change in provision for unearned premiums	(77,690,880)	(42,632,625)
Total gross premiums earned on insurance contracts (Note 11)	1,774,759,379	1,516,228,822
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	1,162,675,107	625,958,837
Assumed reinsurance	606,082,871	874,528,477
Total reinsurers' share of gross premiums on insurance contracts (Note 11)	1,768,757,978	1,500,487,314
(Forward)		
Reinsurers' share of change in provision for unearned premiums	(58,965,360)	(63,577,232)
Total reinsurers' share of gross premiums earned on insurance contracts (Note 11)	1,709,792,618	1,436,910,082
Net premiums earned (Note 11)	P64,966,761	P79,318,740



16. Investment and Other Income - net

Investments and other income consist of the following:

	2018	2017
Interest income:		
Financial assets at FVPL (Note 6)	P5,368,266	P5,339,981
HTM financial assets (Note 6)	6,625,160	-
Cash and cash equivalents (Note 4)	2,735,375	8,820,310
Short-term investments (Note 4)	10,913,648	1,472,791
Long-term investments (Note 6)	1,396,481	1,246,337
Income from SJNK	4,298,619	5,610,390
Dividend income	331,771	2,660
Fair value losses (Note 6)	(4,110,924)	(311,364)
	P27,558,396	P22,181,105

Income from SJNK pertains to reimbursements from Sompo Japan Nipponkoa Holdings, Inc. for its share of the Company's general expenses.

17. Net Insurance Contract Benefits and Claims

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

	2018	2017
Insurance contract benefits and claims paid:		
Direct insurance	P138,071,801	P203,236,492
Assumed reinsurance	939,076,555	1,142,952,667
Total insurance contract benefits and claims paid (Note 11)	P1,077,148,356	P1,346,189,159

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

	2018	2017
Reinsurers' share of insurance contract benefits and claims paid:		
Direct insurance	P102,646,247	P140,071,960
Assumed reinsurance	932,605,218	1,142,685,302
Total reinsurers' share of insurance contract benefits and claims paid (Note 11)	P1,035,251,465	P1,282,757,262

Gross change in insurance contract liabilities:

	2018	2017
Change in provision for claims reported:		
Direct insurance	P289,540,779	P60,619,453
Assumed reinsurance	(569,919,493)	1,765,432,984
Change in provision for IBNR claims	19,894,790	8,437,637
Total gross change in insurance contract liabilities (Note 11)	(P260,483,924)	P1,834,490,074



Reinsurers' share of gross change in insurance contract liabilities:

	2018	2017
Reinsurers' share of gross change in outstanding claims provisions:		
Direct insurance	(₱255,277,451)	(₱1,813,937,156)
Assumed reinsurance	(32,401,416)	(5,159,732)
Total reinsurers' share of gross change in insurance contract liabilities (Note 11)	(₱287,678,867)	(₱1,819,096,888)

18. General Expenses

This account consists of:

	2018	2017
Salaries and benefits (Notes 14 and 23)	₱32,742,333	₱31,010,630
Provision for credit and impairment losses	8,892,574	-
Rent (Notes 23 and 25)	5,984,334	4,692,334
Communication, light and water	4,220,504	3,793,271
Professional fees	3,574,305	5,646,546
Service fees	3,529,623	3,637,474
Entertainment, amusement and recreation	3,405,611	3,373,689
Depreciation and amortization (Note 9)	3,282,925	1,927,072
Maintenance and repairs	2,615,774	2,725,355
Transportation	1,858,351	2,365,906
Net pension benefit expense (Note 14)	1,759,109	1,891,844
Taxes, licenses and fees (Note 26)	532,526	2,692,872
Others	3,803,072	1,527,444
	₱76,201,041	₱65,284,437

Others includes SSS, HDMF and other contribution, stationary and supplies, insurance expense, advertisements, training expense and other expenses.

19. Income Tax

The provision for income tax consists of:

	2018	2017
Current	₱1,877,922	₱-
Final	5,185,622	3,155,844
Deferred	3,646,648	(442,290)
	₱10,710,192	₱2,713,554

The regular taxable income in 2018 is lower than the MCIT of ₱1.88 million. Hence, the current provision for income tax in 2018 pertains to MCIT.



The components of net deferred tax assets follow:

	2018	2017
Deferred tax assets:		
Provision for IBNR claims	₱9,107,392	₱-
Unrealized loss on fair value changes of financial assets at FVPL	1,606,148	-
Unamortized past service cost	1,548,586	1,742,159
Allowance for doubtful accounts	746,079	91,732
Unrealized impairment loss on AFS financial assets	150,000	150,000
NOLCO	-	14,697,834
Net pension benefit obligation - profit or loss	-	1,205,006
Deferred tax assets through profit or loss	13,158,205	17,886,731
Deferred tax assets through OCI remeasurements on pension	1,225,622	910,137
Total deferred tax assets	14,383,827	18,796,868
Deferred tax liabilities:		
Net pension benefit asset profit or loss	93,154	-
Provision for IBNR claims	-	1,923,627
Unrealized foreign currency exchange gains	1,067,078	318,483
Deferred tax liabilities through profit or loss	1,160,232	2,242,110
Deferred tax liabilities through OCI on revaluation of AFS financial assets	9,015,000	-
Total deferred tax liabilities	10,175,232	2,242,110
Net deferred tax assets	₱4,208,595	₱16,554,758

Movements in net deferred tax assets comprise of:

	2018	2017
At beginning of the year	₱16,554,758	₱15,728,818
Amounts credited to statements of income	(3,646,648)	442,290
Amount charged against statements of comprehensive income	(8,699,515)	383,650
At end of the year	₱4,208,595	₱16,554,758

The reconciliation of provision for income tax computed at the statutory corporate income tax rate to provision for income tax shown in the statements of income follows:

	2018	2017
Income at statutory income tax rate	30.00%	30.00%
Tax effects of:		
Interest income subjected to final tax	(30.26)	(14.85)
Dividend income	(0.23)	(0.01)
Nondeductible expenses	19.32	4.82
Fair value losses on financial assets at FVPL	2.81	1.16
Movement in recognized deferred taxes	2.73	-
Provision for income tax	21.65%	21.12%



20. Contingencies

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on its results and financial position and results of operation.

21. Management of Capital, Insurance and Financial Risks

Governance Framework

The Company, pursuant to Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code of the Philippines submitted to the (IC) the general disclosure requirement with respect to its operations. It includes capitalization, shareholders of record, board composition and size including qualifications, mission and responsibilities of the board, management accountability, internal control and operational risk management. It likewise declares its public accountability and transparency in financial reporting in compliance with the good governance requirements.

Regulatory Framework

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

The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g. minimum statutory net worth requirements and risk-based capital requirements).

Capital Management Framework

The Company maintains a certain level of capital to ensure sufficient solvency margins and to adequately protect the policyholders.

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

Minimum Statutory Networth

On August 15, 2013, the President of the Philippines approved Republic Act No. 10607, otherwise known as the "New Insurance Code" which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022. The following presents the amount of required net worth and the schedule of compliance per New Insurance Code:

<u>Networth</u>	<u>Compliance Date</u>
₱250,000,000	June 30, 2013
550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022



On January 13, 2015, the IC issued the Circular Letter (CL) No. 2015-02-A which provides for the clarification of minimum capital requirements under Sections 194, 197, 200 and 289 of the New Insurance Code. The said circular supersedes the Department Order Nos. 27-06 and 15-2012 and CL Nos. 22-2008 and 26-2008.

The net worth consist of (1) Paid-up capital; (2) Retained earnings; (3) Unimpaired surplus; (4) Revaluation of assets and reduced by the cost of treasury shares.

The minimum networkth requirement must remain unimpaired for the continuance of the license.

As of December 31, 2018 and 2017, the Company's estimated statutory networkth amounted to ₱609.37 million and ₱577.25 million, respectively.

Risk-based Capital Requirements

IMC No. 7-2006 provides for the RBC framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risks. Every nonlife insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as networkth divided by the RBC requirement. Networkth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of networkth only to the extent authorized by the IC.

In 2016, the IC issued Circular Letter No. 2016 68, Amended Risk-Based Capital (RBC2) Framework, pursuant to Section 437 of the Amended Insurance Code. The RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC is the aggregate of Tier I and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier I Capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis (e.g. Capital Stock, Statutory Deposit, Capital Stock Subscribed, Contributed Surplus, etc.). Tier 2 Capital does not have the same high quality characteristics of Tier I capital, but can provide an additional buffer to the insurer (e.g. Reserve for Appraisal Increment — Property and Equipment, Remeasurement Gains (Losses) on Retirement Pension Asset (Obligation), etc.). Tier 2 Capital shall not exceed 50% of Tier I Capital.

The following table shows how the RBC ratio as of December 31, 2018 and 2017 was determined by the Company:

	2018	2017
Networkth	₱609,373,024	₱577,245,634
RBC requirement	170,793,123	355,998,585
RBC Ratio	356.79%	162.15%

Networkth computation is based on the IC's RBC 2 components.

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



If an insurance company failed to meet the minimum statutory networth requirements and risk-based capital requirements, the IC is authorized to suspend or revoke all certificates of authority granted to such companies, its officers and agents, and no new business shall be done by and for such company until its authority is restored by the IC.

Insurance Risk

The risk under insurance contract is the possibility of occurrence of insured event and uncertainty of the amount and timing of the resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments will exceed the carrying amount of insurance contract liabilities. This is influenced by the frequency of claims, severity of claims and actual benefits paid that are greater than originally estimated.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The variability of risks can also be improved by careful selection and implementation of underwriting strategies and guidelines.

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

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

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

The business of the Company mainly comprises of short-term nonlife insurance contracts.

The Company principally issues the following types of general insurance contracts: fire, engineering, marine, motor car, personal accident, general accident and bonds.

The table below sets out the concentration of the claims provisions as of December 31, 2018 and 2017 by type of contract (see Note 11).

	Gross	Reinsurers' Share	Net 2018	Gross	Reinsurers' Share	Net 2017
Property	₱1,789,779,323	₱1,746,210,074	₱43,569,249	₱2,001,885,090	₱1,984,033,569	₱17,851,521
Marine	36,922,305	32,269,249	4,653,056	18,061,806	15,909,778	2,152,028
General Accident	(1,716,994)	2,095,777	(3,812,771)	18,100,290	14,807,218	3,293,072
Motor	3,822,229	43,026	3,779,203	2,430,375	38,663	2,391,712
Personal Accident	661,279	88,977	572,302	206,162	36,127	170,035
Medical	9,420,816	-	9,420,816	5,540,002	-	5,540,002
Casualty	80,160,652	79,647,313	513,339	133,309,810	133,207,928	101,882
	₱1,919,049,610	₱1,860,354,416	₱58,695,194	₱2,179,533,535	₱2,148,033,283	₱31,500,252

The most significant risk arises from climate changes and natural disasters and terrorist activities. These risks vary significantly in relation to the location of the risk insured by the Company, type of risks insured and, in respect of commercial and business interruption by industry.



The Company also enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company also has limited its exposure level by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events. The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's risk appetite as decided by management.

Assumptions

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

Other key assumptions include delays in settlement and changes in foreign currency exchange rates.

Sensitivities

In insurance, as a rule, there may be claims filed in the current year that would attach policies issued in the previous years. This in effect makes claims provisions highly sensitive as represented by the table below. Other unpredictable circumstances, like legislative uncertainties, make it impossible to quantify claims. Also, due to delays arising between occurrence of claims and their subsequent reporting to and settlement by the Company, the outstanding claim provisions cannot be ascertained with confidence at the reporting date. As a result, the final liabilities will change as a result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent year's financial statements.

The table below shows the impact of changes in certain important assumptions in general insurance business while other assumptions remain unchanged. The interrelation of these assumptions will have an important impact in the computation of the final liabilities. But these assumption changes should be done on an individual basis to show the effect on the claims liabilities.

Sensitivity analysis as of December 31, 2018 and 2017 follows:

2018				
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	32% decrease	(P619,766,229)	(P20,050,836)	P20,050,836
Average number of claims	26% increase	495,203,137	16,020,939	(16,020,939)
2017				
	Change in assumption	Impact on gross insurance contract liabilities	Impact on net insurance contract liabilities	Impact on income before income tax
Average claim costs	25% increase	P33,654,729	P13,461,892	(P13,461,892)
Average number of claims	10% increase	1,585,797	634,319	(634,319)



Claims Development Table

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR claims for each successive accident year at each reporting date, together with cumulative payments to date (see Note 11).

Accident year	Gross Insurance Contract Liabilities										Total	
	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018		
Estimate of ultimate claims costs:												
At the end of accident year	₱684,441,349	₱560,353,419	₱106,500,448	₱188,839,808	₱199,101,904	₱113,943,504	₱71,441,553	₱283,120,944	₱3,145,859,844	₱600,749,241	₱600,749,241	₱600,749,241
One year later	964,269,173	936,409,875	183,087,250	335,518,056	272,812,278	106,927,612	77,883,222	334,647,638	3,358,559,929	-	-	3,358,559,929
Two years later	1,082,116,120	936,443,223	189,739,012	397,181,911	252,577,638	99,911,720	68,066,983	321,287,769	-	-	-	321,287,769
Three years later	1,125,417,527	936,443,224	189,296,357	670,013,028	232,342,999	97,800,182	67,744,569	-	-	-	-	67,744,569
Four years later	1,135,988,080	936,444,654	189,285,745	670,029,466	216,927,629	95,237,344	-	-	-	-	-	95,237,344
Five years later	1,135,458,120	936,452,500	189,269,133	673,448,309	218,963,594	-	-	-	-	-	-	218,963,594
Six years later	1,135,557,427	936,460,346	189,241,005	673,695,691	-	-	-	-	-	-	-	673,695,691
Seven years later	1,135,543,717	936,460,346	189,209,656	-	-	-	-	-	-	-	-	189,209,656
Eight years later	1,135,383,121	936,469,110	-	-	-	-	-	-	-	-	-	936,469,110
Nine years later	1,136,284,898	-	-	-	-	-	-	-	-	-	-	1,136,284,898
Current estimate of cumulative claims	1,136,284,898	936,469,110	189,209,656	673,695,691	218,963,594	95,237,344	67,744,569	321,287,769	3,358,559,929	600,749,241	600,749,241	7,598,201,801
Cumulative payments to date	1,136,217,820	936,467,681	189,199,264	673,061,035	218,899,441	94,813,254	67,744,569	169,308,666	2,152,686,121	71,112,313	71,112,313	5,709,510,163
Liability recognized in the statement of financial position	₱67,078	₱1,429	₱10,392	₱634,656	₱64,153	₱424,090	₱-	₱151,979,103	₱1,205,873,808	₱529,636,929	₱529,636,929	₱1,888,691,638

Accident year	Net Insurance Contract Liabilities										Total	
	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018		
Estimate of ultimate claims costs:												
At the end of accident year	₱77,265,709	₱3,723,444	₱4,327,116	₱4,849,821	₱20,520,072	₱113,658,947	₱4,059,626	₱12,191,187	₱74,950,568	₱40,915,488	₱40,915,488	₱40,915,488
One year later	100,651,036	10,501,912	6,268,439	533,789	94,230,447	113,809,732	5,489,125	9,523,147	80,001,632	-	-	80,001,632
Two years later	104,006,327	10,502,833	10,867,800	62,197,645	94,153,327	113,960,517	4,904,346	16,570,727	-	-	-	16,570,727
Three years later	54,090,057	10,502,833	10,425,145	335,061,691	94,076,207	115,113,409	5,003,062	-	-	-	-	5,003,062
Four years later	55,295,822	10,504,264	10,430,912	335,111,058	93,308,639	114,646,873	-	-	-	-	-	114,646,873
Five years later	54,817,554	10,504,855	10,430,680	334,949,668	93,437,559	-	-	-	-	-	-	93,437,559
Six years later	54,832,317	10,505,447	10,418,025	334,950,975	-	-	-	-	-	-	-	334,950,975
Seven years later	54,860,044	10,506,817	10,423,236	-	-	-	-	-	-	-	-	10,423,236
Eight years later	54,690,403	10,515,352	-	-	-	-	-	-	-	-	-	10,515,352
Nine years later	31,160,372	-	-	-	-	-	-	-	-	-	-	31,160,372
Current estimate of cumulative claims	31,160,372	10,515,352	10,423,236	334,950,975	93,437,559	114,646,873	5,003,062	16,570,727	80,001,632	40,915,488	40,915,488	737,625,276
Cumulative payments to date	31,160,372	10,505,402	10,423,236	334,920,590	93,437,559	114,603,285	5,003,062	16,502,617	70,352,825	22,377,106	22,377,106	709,288,054
Liability recognized in the statement of financial position	₱-	₱9,950	₱-	₱30,385	₱-	₱41,588	₱-	₱68,110	₱9,648,807	₱18,538,382	₱18,538,382	₱28,337,222



The Company aims to maintain strong reserves in respect of its insurance business in order to protect against adverse future claims experience and development. As claims develop and the ultimate costs of claims become more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

Financial Risk

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risk that the Company primarily faces due to the nature of its investments and liabilities is interest rate risk.

Credit Risk

Credit risk is a risk due to uncertainty in a counterparty's ability to meet its obligation.

Prior to extending credit, the Company manages its credit risk by assessing credit quality of its counterparty.

Another method by which the Company manages its credit risk exposure is through credit analysis. This is a process of assessing the credit quality of a counterparty, which is a process that entails judgment.

The credit policy group reviews all information about the counterparty which may include its statements of financial position, statements of income and other market information. The nature of the obligation is likewise considered. Based upon this analysis, the credit analyst assigns the counterparty a credit rating to determine whether or not credit may be provided.

Credit risk limit is also used to manage credit exposure which specifies maximum credit exposure for each intermediary depending on the size of its portfolio and its ability to meet its obligation based on past experience.

The following table provides information regarding the credit risk exposure of the Company as of December 31, 2018 and 2017:

	2018	2017
Cash and cash equivalents (excluding cash on hand)	₱209,030,699	₱357,610,474
Short-term investments	407,317,613	242,844,962
Insurance receivables - net	706,236,240	557,529,709
Financial assets at FVPL	128,419,883	177,821,185
AFS financial assets	87,091,519	63,133,992
HTM financial assets	222,196,026	-
Loans and receivables - net	113,032,138	90,209,722
Reinsurance recoverable on unpaid losses	1,860,354,416	2,148,033,283
	₱3,733,678,534	₱3,637,183,327



The table below provides information regarding the credit quality of the Company by classifying assets according to the Company's credit ratings of counterparties as of December 31, 2018 and 2017.

December 31, 2018

	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Medium grade	Low grade			
Cash and cash equivalents (excluding cash on hand)	P209,030,699	P-	P-	P-	P-	P209,030,699
Short-term investments	407,317,613	-	-	-	-	407,317,613
Insurance receivables	429,520,425	-	-	271,741,953	2,486,931	703,749,309
Financial assets at FVPL	128,419,883	-	-	-	-	128,419,883
AFS financial assets	87,091,519	-	-	-	-	87,091,519
HTM financial assets	222,196,026	-	-	-	-	222,196,026
Loans and receivables	81,531,950	31,500,188	-	-	-	113,032,138
Reinsurance recoverable on unpaid losses	-	1,860,354,416	-	-	-	1,860,354,416
	P1,565,108,115	P1,891,854,604	P-	P271,741,953	P2,486,931	P3,731,191,603

December 31, 2017

	Neither past due nor impaired			Past due but not impaired	Impaired	Total
	High grade	Medium grade	Low grade			
Cash and cash equivalents (excluding cash on hand)	P357,610,474	P-	P-	P-	P-	P357,610,474
Short-term investments	242,844,962	-	-	-	-	242,844,962
Insurance receivables	326,012,430	-	-	231,517,279	305,773	557,835,482
Financial assets at FVPL	177,821,185	-	-	-	-	177,821,185
AFS financial assets	63,133,992	-	-	-	-	63,133,992
Loans and receivables	57,575,785	32,633,937	-	-	-	90,209,722
Reinsurance recoverable on unpaid losses	-	2,148,033,283	-	-	-	2,148,033,283
	P1,224,998,828	P2,180,667,220	P-	P231,517,279	P305,773	P3,637,489,100

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

Cash and cash equivalents, short-term investments, financial assets at FVPL, HTM financial assets and AFS financial assets - Based on the nature of counterparty. High grade pertains to cash, cash equivalents deposited or invested in local banks belonging to the top 10 rankings, short-term investments, financial assets FVPL, AFS financial assets and HTM financial assets with counterparties having a strong capacity to meet its obligation.

Insurance receivables and loans and receivables - High grade pertains to receivables from counterparties with strong capacity to meet its obligation and has no default in payment history; medium grade pertains to receivables from counter parties with average capacity to meet its obligation; and low grade pertains to receivables from counterparties with high probability of default.



The aging analysis of financial assets that are impaired and past due but not impaired follows:

	2018			
	Past due but not impaired		Impaired	Total
	91 to 120 days	121 days beyond		
Due from policyholders	₱16,972,094	₱133,725,966	₱2,486,931	₱153,184,991
Due from ceding companies	18,813,879	74,984,783	—	93,798,662
Reinsurance recoverable on paid losses	97,142	27,148,089	—	27,245,231
	₱35,883,115	₱235,858,838	₱2,486,931	₱274,228,884

	2017			
	Past due but not impaired		Impaired	Total
	91 to 120 days	121 days beyond		
Due from policyholders	₱17,182,392	₱85,391,712	₱305,773	₱102,879,877
Due from ceding companies	34,204,017	68,117,080	—	102,321,097
Reinsurance recoverable on paid losses	544,865	26,077,213	—	26,622,078
	₱51,931,274	₱179,586,005	₱305,773	₱231,823,052

Liquidity Risk

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

The Company monitors its cash position on a daily basis by preparing a cash report wherein the disbursements and collections are monitored. This report helps the Company in determining periods where it has excess cash or cash short fall.

The table below analyzes financial assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates as of December 31, 2018 and 2017.

	2018			
	Up to a year	1-3 years	No term	Total
Cash and cash equivalents*	₱—	₱—	₱209,070,699	₱209,070,699
Short-term investments	407,317,613	—	—	407,317,613
Insurance receivables	616,594,514	89,641,726	—	706,236,240
Financial assets at FVPL	—	89,325,813	39,094,070	128,419,883
HTM financial assets	—	168,684,607	53,511,419	222,196,026
AFS financial assets	—	87,091,519	—	87,091,519
Loans and receivables	—	113,032,138	—	113,032,138
Reinsurance recoverable on unpaid losses	—	1,860,354,416	—	1,860,354,416
Total financial assets	1,023,912,127	2,408,130,219	301,676,188	3,733,718,534
Insurance payables	801,799,805	103,025,654	—	904,825,459
Accounts payable and accrued expenses	80,942,479	—	—	80,942,479
Provision for claims reported and IBNR claims	1,919,049,610	—	—	1,919,049,610
Total financial liabilities	₱2,801,791,894	₱103,025,654	₱—	₱2,904,817,548

*excludes cash on hand



	2017			
	Up to a year	1-3 years	No term	Total
Cash and cash equivalents*	₱216,840,312	₱-	₱140,770,162	₱357,610,474
Insurance receivables	242,844,962	-	-	242,844,962
Financial assets at FVPL	509,078,246	48,757,236	-	557,835,482
AFS financial assets	-	177,821,185	-	177,821,185
Loans and receivables	-	63,133,992	-	63,133,992
Reinsurance recoverable on unpaid losses	-	90,209,722	-	90,209,722
Total financial assets	968,763,520	379,922,135	140,770,162	1,489,455,817
Insurance payables	611,510,191	17,668,012	-	₱629,178,203
Accounts payable and accrued expenses	91,925,110	-	-	91,925,110
Provision for claims reported and IBNR claims	2,179,533,535	-	-	2,179,533,535
Total financial liabilities	₱2,882,968,836	₱17,668,012	₱-	₱2,900,636,848

*excludes cash on hand

Market Risk

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

The Company manages market risk exposures by setting up limits structures and by promulgating specific investment guidelines and strategies. The Company also invests in financial institutions with acceptable ratings from domestic and international credit rating agencies or at least within the top 15 ranking in case of banks. The Company also ensures that its investments comply with the guidelines and requirements set out by the IC.

a. Currency risk

The Company's principal transactions are carried out in Philippine Peso and its exposure to foreign exchange risk arises primarily with respect to US Dollar and Japanese Yen transactions and balances.

The table below summarizes the Company's exposure to foreign currency exchange rate risks as of December 31, 2018 and 2017 by categorizing assets and liabilities by major currencies.

	2018		2017	
	U.S. Dollar	Japanese Yen	U.S. Dollar	Japanese Yen
Cash and cash equivalents	USD2,638,998	¥9,066,202	USD1,888,766	¥4,913,590
Short-term investments	1,740,388	-	430,929	-
Insurance receivables	6,153,634	22,762,865	4,039,325	8,684,251
Insurance payables	(6,170,596)	(37,048,448)	(4,301,169)	(129,133)
Insurance contract liabilities	(170,653)	(362,556)	(129,345)	(116,856)
	USD4,191,771	(¥5,581,937)	USD1,928,506	¥13,351,852
Philippine peso equivalent	₱220,403,301	(₱2,651,978)	₱96,290,305	₱5,905,524



The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Japanese Yen exchange rates, with all other variables held constant, of the Company's profit before tax.

December 31, 2018

	Change in rate	Impact on income before tax Increase (decrease)
US Dollar	+3.70%	8,163,664
Japanese Yen	+7.53%	(199,663)
US Dollar	-3.70%	(8,163,664)
Japanese Yen	-7.53%	199,663

December 31, 2017

	Change in rate	Impact on income before tax Increase (decrease)
US Dollar	+3.55%	₱2,652,209
Japanese Yen	+2.08%	122,827
US Dollar	-3.55%	(2,652,209)
Japanese Yen	-2.08%	(122,887)

There is no impact on equity other than those already affecting the net income.

b. Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in interest rates. The Company's FVPL financial assets bear fixed interest rates and therefore the Company is exposed to fair value interest rate risk but not to cash flow interest rate risk.

The following table shows the information relating to the Company's financial instruments that are exposed to fair value interest rate risk presented by maturity profile.

	Interest Rates	2018			Total
		Up to a year	1-5 years	Over 5 years	
Cash and cash equivalents	0.25% to 4.75%	₱209,070,699	₱-	₱	₱209,070,699
Short-term investments	0.75% to 4.75%	407,317,613	-	-	407,317,613
Financial assets at FVPL	2.5% to 4.145%	39,094,070	89,325,813	-	128,419,883
	Interest Rates	2017			Total
Cash and cash equivalents	0.25% to 3.00%	₱216,840,312	₱-	₱140,770,162	₱357,610,474
Short-term investments	0.75% to 2.65%	242,844,962	-	-	242,844,962
Financial assets at FVPL	2.2% to 4.15%	-	177,821,185	-	177,821,185



The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on revaluing fixed rate FVPL financial assets.

The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

	Change in variables	Impact on income before tax Increase (decrease)
December 31, 2018	+100 basis points	(₱1,565,310)
	-100 basis points	1,594,757
December 31, 2017	+100 basis points	(₱3,333,120)
	-100 basis points	3,438,213

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

c. *Price risk*

The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result changes in market prices, principally AFS equity securities. As of December 31, 2018 and 2017, the Company's AFS equity securities pertain to investment in club shares and quoted equity securities.

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

	2018	
	Change in variables	Impact on equity Increase (decrease)
PSEi	+12.95%	₱1,330,010
	-12.95%	(1,330,010)
	2017	
	Change in variables	Impact on equity Increase (decrease)
PSEi	+12.95%	₱1,211,350
	-12.95%	(1,211,350)

22. Fair Value of Financial Assets and Liabilities

Fair values of financial assets and liabilities are estimated as follows:

Cash and cash equivalents, short-term investments, insurance receivables, loans and receivables (excluding long-term investments), insurance payables and accounts payable and accrued expenses - Due to the short-term nature of the instruments, the fair values approximate the carrying amounts as of the reporting date.



Financial assets at FVPL and AFS financial assets - Fair values are generally based on quoted market prices.

Long-term investments - Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	2018			Total
	Level 1	Level 2	Level 3	
AFS Financial Assets				
Listed equity securities	P22,091,519	P-	P-	P22,091,519
Club shares	65,000,000	-	-	65,000,000
Financial assets at FVPL				
Government debt securities	128,419,883	-	-	128,419,883
	P215,511,402	P-	P-	P215,511,402

	2017			Total
	Level 1	Level 2	Level 3	
AFS Financial Assets				
Listed equity securities	P21,133,992	P-	P-	P21,133,992
Club shares	42,000,000	-	-	42,000,000
Financial assets at FVPL				
Government debt securities	177,821,185	-	-	177,821,185
	P240,955,177	P-	P-	P240,955,177

There were no financial instruments classified under Levels 2 and 3 categories. There were also no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

23. Related Party Transactions

The sales to and purchases from related parties are made at normal market prices. Outstanding balances as of year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2018 and 2017, the Company has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Significant transactions with related parties include the following:

- a. The Company enters into several reinsurance transactions with its related parties in the normal course of business.



Transactions during the year and outstanding balances as of year-end are as follows:

2018				
	Amount	Outstanding balance	Terms	Conditions
PGAI (Common control)				
Sublease agreement	₱9,107,157	₱-	On demand; Non-interest bearing	Unsecured; No impairment
Premiums assumed (net of RI commission expense)	355,811,152	317,520,398	On demand; Non-interest bearing	Unsecured; No impairment
Premiums ceded (net of RI commission earned)	90,445,189	34,845,772	-	-
Losses recoverable (ceded business)	61,864,853	17,160,486	On demand; Non-interest bearing	Unsecured; No impairment
Service agreement	1,342,055	275,597	On demand; Non-interest bearing	Unsecured; No impairment
Sompo Japan Insurance Inc. (Venturer)				
Premium ceded (net of RI commission earned)	744,423,106	97,730,881	On demand; Non-interest bearing	Unsecured; No impairment
Cost allocation with 10% mark-up	12,379,396	2,711,587	On demand; Non-interest bearing	Unsecured; No impairment
2017				
	Amount	Outstanding balance	Terms	Conditions
PGAI (Common control)				
Sublease agreement	₱6,467,661	₱-	On demand; Non-interest bearing	Unsecured; no impairment
Premiums assumed (net of RI commission expense)	320,338,766	240,008,727	On demand; Non-interest bearing	Unsecured; no impairment
Premiums ceded (net of RI commission earned)	70,512,765	41,036,549	-	-
Service agreement	1,539,641	187,402	On demand; Non-interest bearing	Unsecured; no impairment
Sompo Japan Nipponkoa Holdings, Inc. (Venturer)				
Cost allocation with 10% mark-up	317,339,228	174,771,965	On demand; Non-interest bearing	Unsecured; No impairment
Tenet Sompo Insurance PTE. LTD. (Common control)				
Premiums ceded (net of RI commission earned)	10,929,105	-	On demand; Non-interest bearing	Unsecured; no impairment

(1) Sublease agreement with PGAI is renewable at each calendar year. This includes payment for office and parking space rent, association dues and utilities.

(2) Service agreement with PGAI pertains to salaries of PGAI employees who are seconded to the Company.

(3) The Company bills Sompo Japan Insurance, Inc. for its share in the expenses with 10% mark-up quarterly.

- b. Key management personnel of the Company include executive and non-executive directors and senior management. The salaries of key management personnel amounted to ₱17.69 million and ₱16.14 million in 2018 and 2017, respectively.



24. Equity

The Company's capital stock consists of:

	2018		2017	
	Shares	Amount	Shares	Amount
Authorized - ₱100 par value	15,000,000	₱1,500,000,000	15,000,000	₱1,500,000,000
Issued and outstanding:				
Beginning	6,500,000	650,000,000	3,000,000	300,000,000
Issuances during the year	-	-	3,500,000	350,000,000
Ending	6,500,000	₱650,000,000	6,500,000	₱650,000,000

The capital infusion made by the stockholders in 2016 for the increase of authorized capital stock was recorded under Deposit for future subscriptions pending approval of the SEC. On April 19, 2017, the SEC approved the increase and the Company consequently reclassified the account to capital stock.

25. Lease Commitments

The Company entered into a three (3) year lease contract with Prudential Guarantee and Assurance, Inc., for the lease of its office space from June 1, 2016 to May 31, 2019.

Rent expense amounted to ₱5.98 million and ₱4.69 million in 2018 and 2017, respectively (see Note 18).

Minimum lease payments due:

	2018	2017
Within one (1) year	₱2,455,973	₱1,291,127
More than one (1) year but less than five (5) years	-	2,711,366
	₱2,455,973	₱4,002,493

26. Supplementary information required under Revenue Regulations 15-2010

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

a. Output Value Added Tax (VAT)

The Company is a VAT-registered company with VAT output tax declaration of ₱11.79 million for the year based on the total amount received, both on premiums and commissions, amounting to ₱981.58 million and VAT input tax declaration of ₱22.66 million for the year based on the amount of purchases of ₱188.83 million.

The Company has zero-rated and exempt receipts for the year amounting to ₱252.17 million and ₱421.02 million respectively.



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

Balance at January 1	₱-
Current year's domestic purchases/payments for:	
Goods other than for resale	22,662,358
Total Input VAT claimed during the year	(22,662,358)
Balance at December 31	₱-

Documentary Stamp Tax (DST)

The DST paid on insurance policies amounted to ₱145.28 million.

b. Other Taxes and Licenses

Details of other taxes, local and national, follow:

Local:

Municipal tax	₱18,160
Barangay clearance	2,200

National:

Miscellaneous	512,166
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Total	₱532,526
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c. Other taxes paid are:

Fire service tax	₱10,969,018
Premium tax	610,450
	₱11,579,468

d. Withholding Taxes

The amount of withholding taxes paid/accrued for the year amounted to:

Withholding taxes on compensation and benefits	₱3,868,275
Expanded withholding taxes	9,803,707
	₱13,671,982

e. Tax assessment

On September 22, 2015, the Company received final tax assessment notice from the Bureau of Internal Revenue (BIR) covering taxable year 2009. The Company appealed the case to the BIR dated October 22, 2015. Tax assessments amounted to ₱102.50 million.

As of June 30, 2016, the BIR performed a thorough evaluation of the documents submitted and recomputed the deficiency internal revenue taxes which amounted to ₱101.03 million. The Company escalated the case to the Court of Tax Appeals (CTA).

