



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Charter Ping An Insurance Corporation is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, 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 Charter Ping An Insurance Corporation'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 Charter Ping An Insurance Corporation or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing Charter Ping An Insurance Corporation's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of Charter Ping An Insurance Corporation in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

Solomon S. Cua
Chairman of the Board

Rahul Hora
President and Chief Executive Officer

Ronaldo C. San Jose
Chief Financial Officer

Signed this 12th day of April 2019

CHARTER PING AN INSURANCE CORPORATION

Under the trade name AXA Philippines

29th Floor GT Tower International, 6813 Ayala Ave. cor. H.V. Dela Costa St., Makati City, Philippines 1227

Customer Care Hotline +63 2 5815 292 • customer.service@axa.com.ph • www.axa.com.ph

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

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S	u	b	s	i	d	i	a	r	y		o	f		P	h	i	l	i	p	p	i	n	e		A	X	A		
L	i	f	e		I	n	s	u	r	a	n	c	e		C	o	r	p	o	r	a	t	i	o	n)			

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

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Form Type

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Department requiring the report

S	E	C
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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's Email Address

customer.service@charterpingan.com

Company's Telephone Number

580-6800

Mobile Number

-

No. of Stockholders

8

Annual Meeting (Month / Day)

Every 3rd Wednesday of March

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Wendy T. Saez Co

Email Address

wendy.saez-co@axa.com.ph

Telephone Number/s

885-0101

Mobile Number

-

CONTACT PERSON'S ADDRESS

29th Floor, GT Tower International, 6813 Ayala Avenue, Makati City

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Charter Ping An Insurance Corporation
29th Floor, GT Tower International,
6813 Ayala Avenue,
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Charter Ping An Insurance Corporation (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and 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

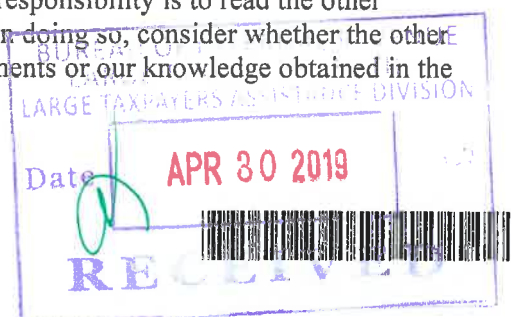
We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditor's report thereon. The Annual Report for the year ended December 31, 2018 is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.



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.

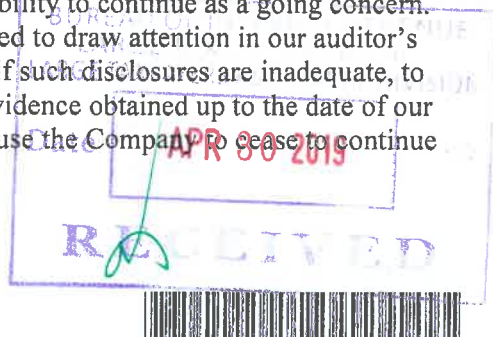
Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Charter Ping An 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.



Arnel F. De Jesus

Partner

CPA Certificate No. 43285

SEC Accreditation No. 0075-AR-4 (Group A),

May 1, 2016, valid until May 1, 2019

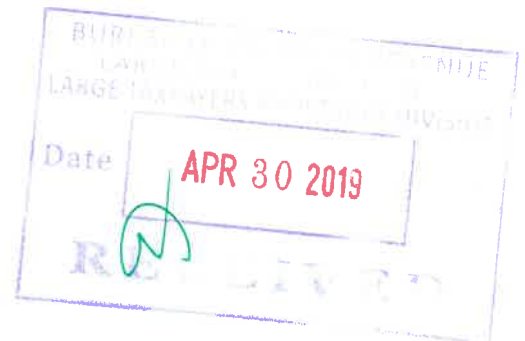
Tax Identification No. 152-884-385

BIR Accreditation No. 08-001998-15-2018,

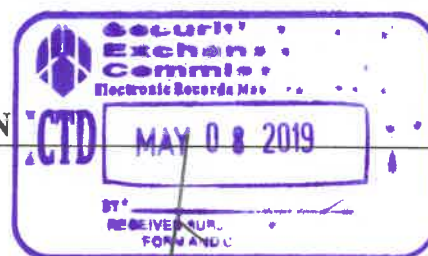
March 14, 2018, valid until March 13, 2021

PTR No. 7332542, January 3, 2019, Makati City

April 25, 2019



CHARTER PING AN INSURANCE CORPORATION STATEMENTS OF FINANCIAL POSITION



	December 31, 2018	December 31, 2017 (As Restated - Note 2)	January 1, 2017 (As Restated - Note 2)
ASSETS			
Cash and cash equivalents (Notes 4, 23 and 25)	₱986,510,697	₱1,262,840,629	₱1,507,028,832
Short-term investments (Notes 4 and 25)	3,000,000	113,500,000	2,000,000
Insurance receivables - net (Notes 5 and 25)	2,870,072,384	2,651,096,021	1,658,080,506
Financial assets (Notes 6 and 25)			
Available-for-sale financial assets	3,889,308,191	3,675,586,063	3,121,224,133
Loans and receivables - net	80,793,674	55,940,744	33,058,691
Reinsurance assets (Notes 7, 12 and 25)	3,903,053,703	3,004,988,932	3,003,293,618
Deferred acquisition costs (Note 8)	600,952,599	523,022,648	398,581,438
Property and equipment - net (Note 9)			
At cost	144,513,351	101,758,008	72,831,799
At revalued amount	132,990,192	141,719,166	150,448,141
Assets held for sale (Note 10)	54,812,000	27,338,997	33,514,420
Net deferred tax assets (Note 22)	235,915,775	158,032,587	33,895,804
Other assets (Note 11)	177,928,338	154,909,585	67,905,205
TOTAL ASSETS	₱13,079,850,904	₱11,870,733,380	₱10,081,862,587
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 12 and 25)	₱7,946,692,281	₱6,982,073,079	₱6,129,407,654
Insurance payables (Notes 13 and 25)	757,678,655	779,700,262	812,865,307
Accounts payable and accrued expenses (Notes 14 and 25)	2,189,417,505	1,832,958,989	914,190,649
Net retirement benefit obligation (Note 21)	57,905,744	72,767,110	135,613,685
Income tax payable	13,313,287	-	-
Deferred reinsurance commissions (Note 8)	137,836,227	109,268,658	111,905,838
Total Liabilities	11,102,843,699	9,776,768,098	8,103,983,133
Equity			
Capital stock (Note 15)	512,500,000	512,500,000	512,500,000
Contingency surplus (Note 15)	1,800,000,000	1,800,000,000	1,800,000,000
Additional paid-in capital	6,634,245	6,634,245	6,634,245
Revaluation reserve on:			
Available-for-sale financial assets (Note 6)	(69,722,384)	39,576,513	37,765,489
Property and equipment (Note 9)	96,980,228	96,980,228	96,980,228
Remeasurement loss on defined benefit obligation (Note 21)	(26,857,112)	(37,180,991)	(81,804,618)
Deficit	(342,527,772)	(324,544,713)	(394,195,890)
Total Equity	1,977,007,205	2,093,965,282	1,977,879,454
TOTAL LIABILITIES AND EQUITY	₱13,079,850,904	₱11,870,733,380	₱10,081,862,587

See accompanying Notes to Financial Statements.

Date **APR 30 2019**

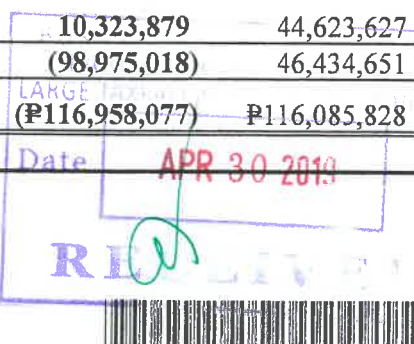
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CHARTER PING AN INSURANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017 (As Restated - Note 2)
Gross earned premiums on insurance contracts	₱5,663,188,909	₱5,234,470,078
Reinsurers' share of gross earned premiums on insurance contracts	(1,820,209,100)	(1,723,375,885)
Net insurance earned premiums (Notes 12 and 16)	3,842,979,809	3,511,094,193
Commission income (Note 8)	215,060,453	147,982,855
Interest income (Note 17)	172,243,249	142,228,702
Gain on sale of available-for-sale financial assets (Note 6)	610,652	18,649,508
Dividend income (Note 17)	3,812,566	4,403,542
Others – net (Note 17)	18,960,670	29,125,137
Other income	410,687,590	342,389,744
Total income	4,253,667,399	3,853,483,937
Gross insurance contract benefits and claims paid	2,848,774,537	2,040,243,019
Reinsurers' share of gross insurance contract benefits and claims paid	(819,867,661)	(341,572,119)
Gross change in insurance contract liabilities	925,644,229	393,080,308
Reinsurers' share of gross change in insurance contract liabilities	(920,860,836)	(110,742,998)
Net insurance benefits and claims (Notes 12 and 18)	2,033,690,269	1,981,008,210
Operating expenses (Note 19)	1,378,651,649	1,169,900,147
Commission expense (Note 8)	882,160,460	720,892,829
Interest expense (Notes 13 and 21)	3,520,038	7,466,384
Other expenses	2,264,332,147	1,898,259,360
Total benefits, claims and other expenses	4,298,022,416	3,879,267,570
Loss before income tax	(44,355,017)	(25,783,633)
Current	56,076,487	48,309,022
Deferred	(82,448,445)	(143,743,832)
Income tax benefit (Note 22)	(26,371,958)	(95,434,810)
NET INCOME (LOSS)	(17,983,059)	69,651,177
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Item that will be reclassified into profit or loss in subsequent periods:</i>		
Unrealized fair value gains/(losses) on available-for-sale financial assets (Note 6)	(108,688,245)	20,460,532
Fair value gain on available-for-sale financial assets transferred to profit or loss (Note 6 and 19)	(610,652)	(18,649,508)
<i>Items that will not be reclassified into profit or loss in subsequent periods:</i>		
Remeasurement losses on defined benefit obligation, net of tax effect (Note 21)	10,323,879	44,623,627
Total other comprehensive income (loss)	(98,975,018)	46,434,651
TOTAL COMPREHENSIVE INCOME (LOSS)	(₱116,958,077)	₱116,085,828

See accompanying Notes to Financial Statements.

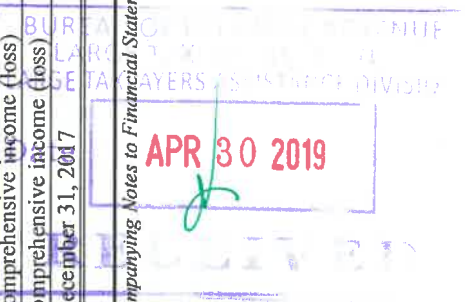


CHARTER PING AN INSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

	Revaluation Reserves				Remeasurement loss on defined benefit obligation		Retained earnings (deficit)	Total
	Capital stock (Note 15)	Contingency surplus (Note 15)	Additional paid-in capital	Available-for-sale financial assets (Note 6)	Property and equipment (Note 9)	(Note 21)		
As of January 1, 2018, as previously presented	¥512,500,000	¥1,800,000,000	¥6,634,245	¥39,576,513	¥96,980,228	(¥37,180,991)	(¥193,386,685)	¥2,225,123,310
Prior period adjustments (Note 2)	-	-	-	-	-	-	(131,158,028)	(131,158,028)
As restated	512,500,000	1,800,000,000	6,634,245	39,576,513	96,980,228	(37,180,991)	(324,544,713)	2,093,965,282
Net loss for the year	-	-	-	-	-	-	(17,983,059)	(17,983,059)
Other comprehensive income (loss)	-	-	-	(109,298,897)	-	10,323,879	-	(98,975,018)
Total comprehensive income (loss)	-	-	-	(109,298,897)	-	10,323,879	(17,983,059)	(116,958,077)
As of December 31, 2018	¥512,500,000	¥1,800,000,000	¥6,634,245	(¥69,722,384)	¥96,980,228	(¥26,857,112)	(¥342,527,772)	¥1,977,007,205
As of January 1, 2017, as previously presented	¥512,500,000	¥1,800,000,000	¥6,634,245	¥37,765,489	¥96,980,228	(¥81,804,618)	(¥305,575,087)	¥2,066,500,257
Prior period adjustments (Note 2)	-	-	-	-	-	-	(88,620,803)	(88,620,803)
As of January 1, 2017, as restated	512,500,000	1,800,000,000	6,634,245	37,765,489	96,980,228	(81,804,618)	(394,195,890)	1,977,879,454
Net income for the year, as previously presented	-	-	-	-	-	-	112,188,402	112,188,402
Prior period adjustments (Note 2)	-	-	-	-	-	-	(42,537,225)	(42,537,225)
Net income for the year, as restated	-	-	-	-	-	-	69,651,177	69,651,177
Other comprehensive income (loss)	-	-	-	1,811,024	-	44,623,627	-	46,434,651
Total comprehensive income (loss)	-	-	-	1,811,024	-	44,623,627	69,651,177	116,085,828
As of December 31, 2017	¥512,500,000	¥1,800,000,000	¥6,634,245	¥39,576,513	¥96,980,228	(¥37,180,991)	(¥324,544,713)	¥2,093,965,282

See accompanying Notes to Financial Statements.

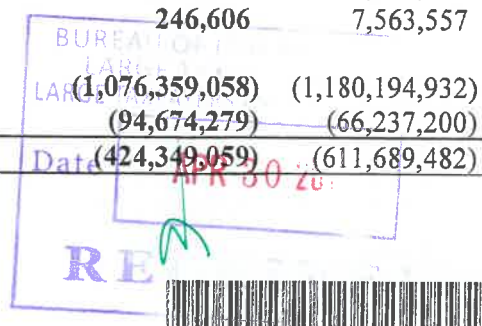


CHARTER PING AN INSURANCE CORPORATION

STATEMENTS OF CASH FLOWS

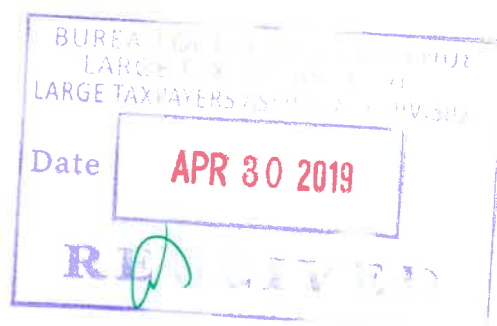
	Years Ended December 31	
	2018	2017 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(P44,355,017)	(P25,783,633)
Adjustments for:		
Interest income (Note 17)	(172,243,249)	(142,228,702)
Depreciation and amortization (Notes 9, 11 and 19)	60,498,817	42,145,560
Loss (gain) on sale of available-for-sale financial assets (Note 6)	(610,652)	(18,649,508)
Impairment losses on insurance receivables and reinsurance assets- net (Notes 5, 12 and 19)	35,880,745	104,504,099
Dividend income (Note 17)	(3,812,566)	(4,403,542)
Loss (gain) on sale of property and equipment (Notes 9 and 17)	(97,513)	(3,669,152)
Bad debts expense (Note 19)	-	909,737
Retirement expense	24,283,367	26,768,688
Interest on defined benefit obligation	3,403,921	6,304,691
Interest Expense	116,117	1,161,693
Operating loss before working capital changes	(96,936,030)	(12,940,069)
Decrease (increase) in:		
Reinsurance assets	(898,064,771)	(1,695,314)
Insurance receivables	(254,857,108)	(1,098,429,351)
Deferred acquisition costs	(77,929,951)	(124,441,210)
Short-term investments	110,500,000	(111,500,000)
Assets held for sale	(27,473,003)	6,175,423
Loans and receivables	(25,825,537)	(5,833,077)
Other assets	(2,991,683)	(66,777,310)
Increase (decrease) in:		
Insurance contract liabilities	964,619,202	852,665,425
Insurance payables	(22,021,607)	(33,165,045)
Deferred reinsurance commissions	28,567,569	(2,637,180)
Accounts payable and accrued expenses	356,458,516	918,768,340
Net cash generated from operations	54,045,597	320,190,632
Interest received	181,364,352	144,576,806
Interest paid	(116,117)	(1,161,693)
Dividends received	3,812,566	4,403,542
Contributions paid to the pension fund	(27,800,255)	(32,171,916)
Income tax paid	(63,287,016)	(68,336,092)
Net cash provided by operating activities	148,019,127	367,501,279
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 6)	746,437,672	627,179,093
Property and equipment (Note 9)	246,606	7,563,557
Acquisition of:		
Available-for-sale financial assets (Note 6)	(1,076,359,058)	(1,180,194,932)
Property and equipment (Note 9)	(94,674,279)	(66,237,200)
Net cash used in investing activities	(424,349,059)	(611,689,482)

(Forward)



	Years Ended December 31	
	2018	2017 (Restated)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(276,329,932)	(244,188,203)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,262,840,629	1,507,028,832
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱986,510,697	₱1,262,840,629

See accompanying Notes to Financial Statements.



CHARTER PING AN INSURANCE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Corporate information

Charter Ping An Insurance Corporation (the Company) was incorporated in the Philippines on June 21, 1960. On September 14, 2009, the Philippine Securities and Exchange Commission (SEC) granted the Company's extension of its corporate life for another 50 years.

Philippine AXA Life Insurance Corporation (AXA Philippines) acquired effective control and management of the Company on March 29, 2016. With this, the operations of the two insurers will remain separate, and AXA Philippines became the parent of the Company.

The Company is presently engaged in the business of nonlife insurance which includes fire, motor car, marine hull, marine cargo, personal accident insurance and other products that are permitted to be sold by a nonlife insurance company in the Philippines.

The Company's registered office is at 29th Floor, GT Tower International, 6813 Ayala Avenue, Makati City.

The accompanying financial statements were approved and authorized for issue by the Board of Directors on April 25, 2019.

2. Summary of significant accounting policies

Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis, except for available-for-sale (AFS) financial assets and certain property and equipment, which have been measured at fair value and assets held for sale which are measured at the lower of carrying amount and fair value less costs to sell. The financial statements are measured in Philippine Peso (₱), which is also the Company's functional and presentation currency. All values are rounded off to the nearest peso values, unless otherwise indicated.

Statement of Compliance

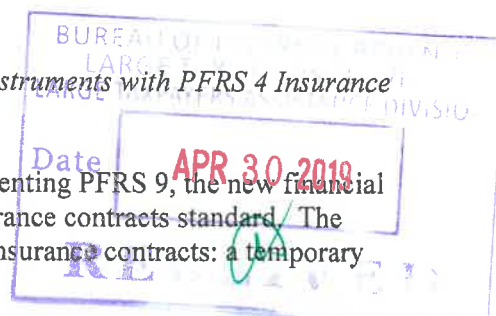
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. 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 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 with the overlay approach if, and only if, applying PFRS 9.

The Company applied the exemption from applying 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 rather than PFRS 9 for annual periods beginning before January 1, 2022. The Company 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 87% of the total carrying amount of all its liabilities. Since 31 December 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

Fair value disclosures

The table below presents an analysis of the fair value of classes of financial assets as of December 31, 2018, as well as the corresponding change in fair value for the year ended December 31, 2018. In the table below, the amortized cost of cash and cash equivalents and short-term receivables has been used as a reasonable approximation to fair value.

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 asset	SPPI Financial assets		Other Financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Cash and cash equivalents	₱986,510,697	₱—	₱—	₱—
AFS financial assets	3,556,337,165	(130,245,567)	322,971,026	22,194,805
Accounts receivables - net	46,220,867	—	—	—
Accrued income	34,572,807	—	—	—

Credit risk disclosures

The following table shows the carrying amount of the SPPI 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. For assets measured at amortized cost, the carrying amount shown is before impairment allowance.

SPPI Financial asset	Investment grade	Non-investment grade:	Unrated	Total
		Satisfactory		
Cash and cash equivalents	₱985,965,640	₱—	₱545,057	₱986,510,697
AFS financial assets	3,546,429,292	—	9,910,872	3,556,337,164
Accounts receivables - net	—	—	46,220,867	46,220,867
Accrued income	34,572,807	—	—	34,572,807

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



- PFRS 15, *Revenue from Contracts with Customers*

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

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

The Company performed an assessment and determined that PFRS 15 has no material impact since majority of its revenue is connected to insurance contracts and is scoped-in under PFRS 4. The Parent Company assessed that the revenue recognition on in-scope accounts remain the same when it applies the five-step model under PFRS 15.

- 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*

Restatement and Prior-period Adjustments

The financial statements of the Company provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a correction of prior period error or reclassification of items in the financial statements. An additional statement of financial position of the Company as at January 1, 2017 is presented in these financial statements due to the retrospective application of correcting the calculation of the Company's reserves for unearned premium, deferred acquisition cost, deferred reinsurance premiums and deferred reinsurance commission (see Notes 7, 8 and 12).

The cumulative prior year impact of the changes arising from correcting the Company's calculations are recognized in Retained Earnings as of January 1, 2017.

The effects of the abovementioned items in the statements of financial position and statements of comprehensive income accounts follow:

<i>Statements of Financial Position</i>	As at December 31, 2017		
	As previously reported	Effect of correction	As restated
Increase (decrease) in:			
Reinsurance assets	₱2,967,578,032	₱37,410,900	₱3,004,988,932
Deferred acquisition costs	494,085,351	28,937,297	523,022,648
Net deferred tax assets	161,517,222	(3,484,635)	158,032,587
Insurance contract liabilities	6,798,110,066	183,963,013	6,982,073,079
Deferred reinsurance commissions	99,210,081	10,058,577	109,268,658
Deficit	(193,386,685)	(131,158,028)	(324,544,713)



Year ended December 31, 2017

Statements of Comprehensive Income

Increase (decrease) in:

Gross earned premiums on insurance contracts	₱5,270,983,793	(₱36,513,715)	₱5,234,470,078
Reinsurer's share of gross earned premiums on insurance contracts	(1,725,185,587)	1,809,702	(1,723,375,885)
Commission income	153,839,022	(5,856,167)	147,982,855
Commission expense	723,235,950	(2,343,121)	720,892,829
Operating expenses	1,159,190,349	10,709,798	1,169,900,147
Provision for deferred tax benefit	(137,354,200)	(6,389,632)	(143,743,832)
Net income	112,188,402	(42,537,225)	69,651,177
Total comprehensive income	158,623,053	(42,537,225)	116,085,828

As at January 1, 2017

<i>Statements of Financial Position</i>	As previously reported	Effect of correction	As restated
Increase (decrease) in:			
Reinsurance assets	₱2,967,692,420	₱35,601,198	₱3,003,293,618
Deferred acquisition costs	361,277,464	37,303,974	398,581,438
Net deferred tax asset	43,770,071	(9,874,267)	33,895,804
Insurance contract liabilities	5,981,958,356	147,449,298	6,129,407,654
Deferred reinsurance commissions	107,703,428	4,202,410	111,905,838
Deficit	(305,575,087)	(88,620,803)	(394,195,890)

Product Classification

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

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 has expired. Investment contracts can however be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Fair Value Measurement

The Company measures financial instrument and non-financial assets such as property and equipment, at fair value at each reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 25.



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 by the Company.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

Cash and Cash Equivalents

Cash includes cash on hand, cash in banks and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of changes in value.

Short term investments

Short-term investments are made for periods ranging more than three (3) months and up to twelve (12) months and 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 initially recognized at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: held-to-maturity (HTM) investments, AFS financial assets, FVPL investments and loans and receivables. 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 AFS financial assets, loans and receivables and other financial liabilities.

Day 1 difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where an observable data is used, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Loans and receivables

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

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



AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as designated at 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 profit or loss. Interest earned on holding AFS debt investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS equity investments 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 investments are reported as "Revaluation reserve on available-for-sale financial assets" in equity. The losses arising from impairment of such investments are recognized in profit or loss. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as realized gains or losses in profit or loss. When the Company holds more than one investment in the same security, the cost is determined using the weighted average method.

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

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 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 effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of comprehensive income.

This accounting policy applies primarily to the Company's provision for claims reported by policyholders, insurance payables and accounts payable and accrued expenses that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit obligation and income tax payable).

Offsetting

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

Impairment of Financial Assets

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



indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against 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.

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

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

AFS investments carried at fair value

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. When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income, and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS financial assets, 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 based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in profit or loss. If, in subsequent year, the fair value of a debt instrument increases 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.

AFS investments carried at cost

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

Where the Company has transferred its right to receive cash flows from an asset and has 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.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or 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 profit or loss.

Reinsurance

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

Reinsurance assets are reviewed for impairment 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 loss is recorded in profit or loss. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized in profit or loss as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances



due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

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

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party. 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 as part of the "Insurance payables" in the liabilities section of the statement of financial position. The amount withheld is generally released after a year. Funds held by ceding companies is accounted for in the same manner.

Deferred Acquisition Costs (DAC)

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

Subsequent to initial recognition, these costs are amortized on a straight-line basis using the 24th method over the life of the contract. Amortization is charged against profit or loss. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the statement of financial position.

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

Property and Equipment

Property and equipment, except for condominium units, are stated at cost, net of accumulated depreciation and amortization and any impairment in value.

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

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the properties as follows:

	Years
Condominium units	32 - 50
Transportation equipment	5
Office furniture, fixtures and equipment	5
Office improvements	5
Electronic Data Processing (EDP) equipment	3



The estimated useful lives, and the depreciation and amortization method are reviewed periodically to ensure that the period and the 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 to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

Condominium units are measured at fair value less accumulated depreciation and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in OCI and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

The revaluation reserve on property and equipment will be transferred directly to retained earnings when the asset is derecognized, i.e., the whole of the reserve will be transferred to retained earnings when the condominium units is retired or disposed of. Transfers from revaluation reserve to retained earnings are not made through profit or loss.

Computer Software

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

Computer software is carried at cost less accumulated amortization. Computer software cost is amortized over the expected useful life of the asset, but not to exceed three (3) years. All computer software components are amortized over three (3) years. Amortization commences when the asset is available for use or when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Company.

Assets Held for Sale

The Company classifies assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Impairment of Non-financial Assets

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



of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets, 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 any such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If such 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 and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining estimated useful life.

Insurance Contract Liabilities

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

Provision for Unearned Premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums as part of "Insurance contract liabilities" and presented 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 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.

Premium liabilities

Premium liabilities is equal to the provision for unearned premiums plus the difference between the provision for unexpired risk and the provision for unearned premiums, net of deferred acquisition costs, if the provision for unexpired risk is greater than the provision for unearned premiums net of Deferred acquisition costs. Otherwise, it is equal to the provision for unearned premiums.

Claims Provision and Incurred But Not Reported (IBNR) Losses

These liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period 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.

Provision for claims IBNR pertains to amount provided for claim events that have occurred but have not been reported to the Company as of the reporting date. The provision for claims IBNR at each reporting date is calculated by an independent actuary accredited by the IC using standard actuarial projection techniques (or combination of such techniques), including but not limited to the chain



ladder method, the expected loss ratio approach, and the Bornhuetter-Ferguson method. The actuary determines the appropriateness of the method used by considering the characteristics of the Company's claims data and other factors such as maturity of the business, large losses arising from significant past events, operational changes in claims and underwriting processes and external conditions.

The Company shall include an MfAD to allow for inherent uncertainty of the best estimate of the policy reserves which shall be determined by an independent actuary at least on an annual basis based on standard projection techniques or combination of such techniques such as, but not limited to, the Mack Method, Bootstrapping Method, Stochastic Chain Ladder Method to bring the actuarial estimate of the policy liabilities at the 75% level of sufficiency.

Provision for claims handling expenses is also calculated by the actuary to cover estimated expenses of settling all claims, both reported and unreported, outstanding as of the reporting date.

Quarterly, an actuarial valuation is performed on the gross and net claims and premium liabilities to ensure that the reserves are in compliance with the Valuation Standards for Non-Life Insurance Policy Reserves as required by the IC guided by Sections 219 and 220 of the Amended Insurance Code (Republic Act (RA) No. 10607) along with Circular Letters No. 2018-18 and No. 2018-19. Additional reserves are set up if the result of the actuarial investigation shows that the existing balances are not in accordance with the mandate of IC.

Provision for unexpired risk

Provision for unexpired risk is the best estimate that relates to expected future claim payments and related expenses to be incurred after the valuation date, arising from future events. This shall be calculated as the best estimate of future claims and expenses for all classes of business, with MfAD.

Liability Adequacy Test

At each end of the reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, net of the 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.

Pension Cost

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 plan is actuarially determined using the projected unit credit method.

Defined benefit cost comprises the following:

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



Service cost includes current service cost, past service cost and gain or loss on non-routine settlements and is recognized as expense in profit or loss. Past service cost is 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 interest expense 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 other comprehensive income 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

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to additional paid-in capital. Share issuance costs incurred as necessary part of completing an equity transaction are accounted for as part of that transaction and are treated as a deduction from additional paid-in capital from previous share issuance. If the additional paid-in capital account is not sufficient, the excess is deducted from retained earnings.

Contingency surplus

Contingency Surplus represents contributions of the stockholders to cover any unexpected deficiency in the Margin of Solvency (MOS) and Risk-Based Capital (RBC) as required under the Insurance Code and can be withdrawn upon the approval of the IC.

Additional paid-in capital

Additional paid-in capital includes any premiums received in excess of par value on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.



Retained earnings (Deficit)

Retained earnings (deficit) include all the accumulated earnings (losses) of the Company, less any amount of dividends declared.

Revenue

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company 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 within the scope of PFRS 15:

Other income

Other income is recognized in the profit or loss as it accrues. This includes administrative fees and other underwriting income.

The Company assessed that there is no difference in accounting for the above income under PFRS 15 and PAS 18.

Premiums revenue

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 from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting period are accounted for as Provision for unearned premiums and shown as part of "Insurance contract liabilities" presented in the liabilities section of the statements of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at end of the reporting period are accounted for as Deferred reinsurance premiums and shown as part of "Reinsurance assets" in the statements of financial position. The net changes in these accounts between each end of reporting period are recognized in profit or loss.

Reinsurance commissions

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of the contracts. The portion of the commissions that relate to the unexpired periods of the policies at end of the reporting period are accounted for as "Deferred reinsurance commissions" and presented in the liabilities section of the statement of financial position.

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes



any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as "Interest income."

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

Dividend income

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

Benefits and claims

Benefits and claims consist of benefits and claims paid to policyholders, which include changes in the valuation of Insurance contract liabilities, including IBNR, except for changes in the provision for unearned premiums which are recorded in premiums revenue. The IBNR shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the chain ladder method, the expected loss ratio approach, the Bornhuetter - Ferguson method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered. General insurance claims are recorded on the basis of notifications received.

Operating expense

Operating expenses, except for lease expenses, are recognized as expense as they are incurred.

Interest expense

Interest expense is charged against operations and is calculated using the effective interest method.

Leases

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

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

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

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

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



Foreign Exchange Transactions

The functional and presentation currency of the Company is the Philippine Peso (₱). Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. Differences arising from translation of monetary assets and liabilities are taken to profit or loss while differences arising from dollar-denominated equity securities classified as AFS financial assets are included in other comprehensive income.

Provisions and Contingencies

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

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

Income Tax

Current tax

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

Deferred income tax

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

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



assets are reassessed at each end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

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

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

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

Events after the Reporting Date

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

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

Effective beginning on or after January 1, 2019

- 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.

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



- 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.

The Company is currently assessing the impact of adopting IFRIC-23.

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

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

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) 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, 2022, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

- **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, 2021, with comparative figures required. Early application is permitted.

The Company is currently assessing the impact of adopting PFRS 17.

Deferred effectivity

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

3. Significant accounting judgments and estimates

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

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

Judgments

Operating lease commitments - Company as lessee

The Company has entered into property leases. The Company has determined that the lessor retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Product classification

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Company defines significant insurance



risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% more than the benefits payable if the insured event did not occur.

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

Estimates

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 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 values of provision for outstanding claims and IBNR amounted to ₱5,005,078,137 and ₱4,048,321,691 as of December 31, 2018 and 2017, respectively (see Note 12).

Fair values of financial assets

The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The carrying value of AFS financial assets amounted to ₱3,889,308,191 and ₱3,675,586,063 as of December 31, 2018 and 2017, respectively (see Note 6).

Impairment of financial assets

The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more or 'prolonged' as continuous decline for more than six (6) months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.



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

The Company reviews its insurance receivables and loans and receivables at each end of the reporting period to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a regular basis.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease net income.

Insurance receivables, net of allowance for doubtful accounts of ₱226,223,833 and ₱199,316,747, amounted to ₱2,870,072,384 and ₱2,651,096,021 as of December 31, 2018 and 2017, respectively (see Note 5). Loans and receivables, net of allowance for doubtful accounts amounted to ₱80,793,674 and ₱55,940,744 as of December 31, 2018 and 2017, respectively (see Note 6).

Estimated useful lives of property and equipment

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

The carrying value of property and equipment amounted to ₱277,503,543 and ₱243,477,174 as of December 31, 2018 and 2017, respectively (see Note 9).

Appraised value of property and equipment

The Company carries certain property and equipment at fair value, less accumulated depreciation. Fair value is arrived at by using the market data approach. With this approach, the value of the property is based on sales and listings of comparable properties registered in the vicinity. The technique of this approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator and adjustment of the differences between the subject property and those actual sales and listings regarded as comparables. The comparison was premised on the factors of location, characteristics of the lot, time element, quality and prospective use. As of December 31, 2018 and 2017, property and equipment carried at fair value amounted to and ₱132,990,192 and ₱141,719,166, respectively (see Note 9).



Impairment of nonfinancial assets

The Company assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The carrying value of property and equipment amounted to ₱277,503,543 and ₱243,477,174 as of December 31, 2018 and 2017, respectively (see Note 9). The carrying value of assets held for sale amounted to ₱54,812,000 and ₱27,338,997 as of December 31, 2018 and 2017, respectively (see Note 10).

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.

As of December 31, 2018, and 2017, deferred tax assets amounted to ₱235,915,775 and ₱158,032,587, respectively (see Note 22).

Estimation of pension obligations and other retirement benefits

The determination of pension obligation and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

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 end of the reporting period. Refer to Note 21 for the details of assumptions used in the calculation. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized as other comprehensive income in the statement of comprehensive income. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

The Company's net pension obligation amounted to ₱57,905,744 and ₱72,767,110 as of December 31, 2018 and 2017, respectively (see Note 21).



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	₱505,272	₱509,992
Cash in banks	336,075,072	199,271,447
Cash equivalents	649,930,353	1,063,059,190
	₱986,510,697	₱1,262,840,629

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earned interest at rates ranging from 0.80% to 7.25% in 2018 and 0.80% to 3.00% in 2017.

Interest income earned from cash equivalents and cash in banks amounted to ₱28,403,959 and ₱556,296, respectively, in 2018 and ₱19,954,820 and ₱384,377 respectively, in 2017 (see Note 17). Accrued interest income on cash equivalents as of December 31, 2018 and 2017 amounted to ₱1,192,136 and ₱375,420, respectively (see Note 6).

Short-term investments

Short-term investments consist of money market placements amounting to ₱3,000,000 and ₱113,500,000 as of December 31, 2018 and 2017, respectively. Short-term investments are made for periods ranging more than three (3) months and up to twelve (12) months and earn interest at the respective short-term investment rates. Interest income earned from short-term investment presented under "Interest income" in the statements of the comprehensive income amounted to ₱25,136 and ₱2,428,998 in 2018 and 2017, respectively (see Note 17). Accrued interest income on short-term investments as of December 31, 2018 and 2017 amounted to ₱20,109 and ₱1,843,462, respectively (see Note 6).

5. Insurance receivables - net

This account consists of:

	2018	2017
Premiums receivable and agents' balances	₱2,272,516,030	₱2,125,695,483
Reinsurance recoverable on paid losses	679,018,299	574,001,110
Due from ceding companies	107,166,134	109,759,803
Bonds recoverable on paid losses	29,272,723	29,272,723
Funds held by ceding companies	8,323,031	11,683,649
	3,096,296,217	2,850,412,768
Less allowance for doubtful accounts	(226,223,833)	(199,316,747)
	₱2,870,072,384	₱2,651,096,021



Premiums receivable and agents' balances arise from unpaid premiums from policyholders and intermediaries. Reinsurance recoverable on paid losses are the share of insurance or reinsurance companies for the claims paid to the insured by the Company while due from ceding companies are premiums receivable for assumed business from other insurance and reinsurance companies.

Bonds recoverable on paid losses represent the estimated recoveries the Company may have from losses on bond policies issued.

The amount of funds held by ceding companies is a percentage of the premiums, as required by the Insurance Commission (IC). The Company's insurance receivables are all due within one year.

The following table shows aging information of insurance receivables:

December 31, 2018

	1 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	Over 180 days	Total
Premiums receivable and agents' balances	₱920,953,004	₱200,873,216	₱176,143,432	₱140,003,481	₱834,542,897	₱2,272,516,030
Reinsurance recoverable on paid losses	381,836,739	97,716,493	11,728,417	13,564,350	174,172,300	679,018,299
Due from ceding companies	47,057,845	3,590,638	2,374,498	2,798,805	51,344,348	107,166,134
Bonds recoverable on paid losses	-	-	-	-	29,272,723	29,272,723
Funds held by ceding companies	195,551	-	-	-	8,127,480	8,323,031
	₱1,350,043,139	₱302,180,347	₱190,246,347	₱156,366,636	₱1,097,459,748	₱3,096,296,217

December 31, 2017

	1 to 90 days	91 to 120 days	121 to 150 days	151 to 180 days	Over 180 days	Total
Premiums receivable and agents' balances	₱985,983,255	₱196,930,153	₱147,765,244	₱159,481,903	₱635,534,928	₱2,125,695,483
Reinsurance recoverable on paid losses	422,376,781	9,195,844	15,594,450	10,835,386	115,998,649	574,001,110
Due from ceding companies	54,749,012	7,841,257	6,442,872	4,021,350	36,705,312	109,759,803
Bonds recoverable on paid losses	-	-	-	-	29,272,723	29,272,723
Funds held by ceding companies	204,558	50,000	50,000	50,000	11,329,091	11,683,649
	₱1,463,313,606	₱214,017,254	₱169,852,566	₱174,388,639	₱828,840,703	₱2,850,412,768

The following is a reconciliation of the changes in allowance for doubtful accounts for insurance receivables:

December 31, 2018

	Premiums receivable and agents' balances	Reinsurance recoverable on paid losses	Due from ceding companies	Bonds recoverable on paid losses	Total
At January 1, 2018	₱99,841,114	₱55,188,542	₱17,185,729	₱27,101,362	₱199,316,747
Impairment during the year (Note 19)	30,709,858	5,170,889	-	-	35,880,747
Write-off	(8,973,661)	-	-	-	(8,973,661)
At December 31, 2018	₱121,577,311	₱60,359,431	₱17,185,729	₱27,101,362	₱226,223,833
Individual impairment	₱-	₱60,359,431	₱17,185,729	₱27,101,362	₱104,646,522
Collective impairment	121,577,311	-	-	-	121,577,311
	₱121,577,311	₱60,359,431	₱17,185,729	₱27,101,362	₱226,223,833



December 31, 2017

	Premiums receivable and agents' balances	Reinsurance recoverable on paid losses	Due from ceding companies	Bonds recoverable on paid losses	Total
At January 1, 2017	₱25,108,716	₱79,892,138	₱18,345,775	₱27,101,362	₱150,447,991
Impairment during the year (Note 19)	74,732,398	28,487,171	1,284,530	—	104,504,099
Write-off	—	(53,190,767)	(2,444,576)	—	(55,635,343)
At December 31, 2017	₱99,841,114	₱55,188,542	₱17,185,729	₱27,101,362	₱199,316,747
Individual impairment	₱—	₱55,188,542	₱17,185,729	₱27,101,362	₱99,475,633
Collective impairment	99,841,114	—	—	—	99,841,114
	₱99,841,114	₱55,188,542	₱17,185,729	₱27,101,362	₱199,316,747

6. Financial assets

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

	2018	2017
AFS financial assets	₱3,889,308,191	₱3,675,586,063
Loans and receivables- net	80,793,674	55,940,744
	₱3,970,101,865	₱3,731,526,807

The assets included in each of the categories above are detailed below:

a. AFS financial assets

	2018	2017
Equity securities		
Quoted:		
Common shares	₱193,645,376	₱121,428,537
Preferred shares	35,579,000	33,894,000
Club shares	103,690,000	66,860,000
Unquoted - at cost		
Common shares	35,125	35,125
Preferred shares	21,525	21,525
Total equity securities	332,971,026	222,239,187
Debt securities		
Government securities:		
Local currency	2,860,964,158	2,809,457,556
Foreign currency	43,062,630	44,189,509
Private debt securities	652,310,377	599,699,811
Total debt securities	3,556,337,165	3,453,346,876
Total AFS financial assets recognized in the statements of financial position	₱3,889,308,191	₱3,675,586,063



The costs or amortized costs of AFS financial assets are as follows:

	2018	2017
Equity securities - at cost		
Quoted:		
Common shares - net of impairment loss amounting to ₱26,973,366 as of 2018 and 2017, respectively	₱192,039,587	₱102,740,345
Preferred shares	32,010,000	32,010,000
Club shares - net of impairment loss amounting to ₱150,000 as of 2018 and 2017, respectively	3,417,500	3,572,500
Unquoted securities - at cost		
Common shares	35,125	35,125
Preferred shares	21,525	21,525
Total equity securities	227,523,737	138,379,495
Debt securities - at cost or amortized cost		
Quoted:		
Government debt securities:		
Local currency	2,996,806,560	2,853,081,994
Foreign currency	42,007,009	40,152,343
Private debt securities	692,055,786	603,898,976
Total debt securities	3,730,869,355	3,497,133,313
Total AFS financial assets at cost or amortized cost	₱3,958,393,092	₱3,635,512,808

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

	2018	2017
At January 1	₱3,675,586,063	₱3,121,224,133
Additions	1,076,359,058	1,180,194,932
Maturities and disposals	(746,437,672)	(627,179,093)
Amortization of premium	(8,148,496)	(19,397,080)
Fair value losses charged against other comprehensive income	(108,050,762)	20,943,171
Reclassification adjustment (Note 11)	—	(200,000)
At December 31	₱3,889,308,191	₱3,675,586,063

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

	2018	2017
At January 1	₱39,576,513	₱37,765,489
OCI		
Changes in fair value of AFS financial assets	(108,050,762)	20,943,171
Tax effect	(637,483)	(482,639)
Transferred to profit or loss:		
Realized gain on sale of AFS financial assets	(610,652)	(18,649,508)
At December 31	(₱69,722,384)	₱39,576,513

Interest income earned from AFS financial assets amounted to ₱143,038,376 and ₱118,348,848 in 2018 and 2017, respectively (see Note 17). Dividend income from AFS financial assets earned by the Company amounted to ₱3,812,566 and ₱4,403,542 in 2018 and 2017, respectively (see Note 17).



b. Loans and receivables - net

This account consists of:

	2018	2017
Accounts receivable	₱48,092,562	₱22,267,025
Allowance for doubtful accounts	(1,871,695)	(1,871,695)
Accounts receivable - net	46,220,867	20,395,330
Accrued interest income on:		
Cash equivalents (Note 4)	1,192,136	375,420
Short-term investments (Note 4)	20,109	1,843,462
AFS debt securities	33,360,562	33,326,532
	₱80,793,674	₱55,940,744

Accounts receivable pertain to advances granted to insurance agents and salary loans granted to employees. Advances granted to insurance agents are to be settled through regular deductions from commissions while salary loans granted to employees are non-interest bearing and payable to the Company within one year through payroll deduction.

Accrued income pertains to interest accrued arising from cash and cash equivalents, short-term investments and AFS financial assets.

As of December 31, 2018 and 2017, allowance for doubtful accounts on accounts receivables amounted to ₱1,871,695. The Company did not recognize provisions for doubtful accounts in 2018 and 2017.

7. Reinsurance assets

This account consists of the following:

	December 31		
	2018	2017 (As Restated)	January 1, 2017 (As Restated)
Reinsurance recoverable on unpaid losses	₱2,776,325,156	₱2,257,814,772	₱1,973,488,496
Less allowance for doubtful accounts	(137,849,391)	(137,849,391)	(137,849,391)
Reinsurance recoverable on unpaid losses - net (Notes 12 and 25)	2,638,475,765	2,119,965,381	1,835,639,105
Reinsurance share on IBNR (Note 12)	659,168,629	225,862,568	379,297,001
Deferred reinsurance premiums (Note 12)	605,409,309	659,160,983	788,357,512
	₱3,903,053,703	₱3,004,988,932	₱3,003,293,618



8. Deferred acquisition costs and deferred reinsurance commissions

Deferred acquisition costs

The rollforward analyses of this account follow:

December 31, 2018

	Commission Expense	Other Acquisition Costs	Total
At January 1, as restated	₱355,521,071	₱167,501,577	₱523,022,648
Costs deferred during the year	946,756,888	190,275,140	1,137,032,028
Amortization during the year	(882,160,460)	(176,941,617)	(1,059,102,077)
At December 31	₱420,117,499	₱180,835,100	₱600,952,599

December 31, 2017 (As Restated)

	Commission Expense	Other Acquisition Costs	Total
As at January 1, as previously presented	₱284,197,133	₱77,080,331	₱361,277,464
Prior period adjustment	21,429,944	15,874,030	37,303,974
At January 1, as Restated	305,627,077	92,954,361	398,581,438
Costs deferred during the year	770,786,823	210,454,667	981,241,490
Amortization during the year	(720,892,829)	(135,907,451)	(856,800,280)
At December 31	₱355,521,071	₱167,501,577	₱523,022,648

Other acquisition costs pertain to underwriting expenses, other than commissions, incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts.

Deferred reinsurance commissions

The rollforward analyses of this account follow:

	December 31		January 1, 2017
	2018	2017 (As Restated)	(As Restated)
At January 1, as restated	₱109,268,658	₱111,905,838	₱103,590,147
Income deferred during the year	243,628,022	145,345,675	177,253,885
Amortization during the year	(215,060,453)	(147,982,855)	(168,938,194)
At December 31	₱137,836,227	₱109,268,658	₱111,905,838



9. Property and equipment- net

The rollforward analysis of property and equipment at cost for 2018 and 2017 follows:

December 31, 2018

	EDP Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Office Improvements	Total
Cost					
At January 1, 2018	₱56,717,473	₱66,751,725	₱59,185,765	₱81,637,673	₱264,292,636
Additions	39,971,684	999,857	896,067	52,806,671	94,674,279
Disposals	(30,790)	(550,000)	(26,800,145)	(21,040,448)	(48,421,383)
At December 31, 2018	96,658,367	67,201,582	33,281,687	113,403,896	310,545,532
Accumulated depreciation and amortization					
At January 1, 2018	27,018,498	52,352,492	39,295,058	43,868,580	162,534,628
Depreciation and amortization (Note 19)	17,654,417	6,101,147	5,450,710	22,563,569	51,769,843
Disposals	(30,790)	(401,000)	(26,800,145)	(21,040,355)	(48,272,290)
At December 31, 2018	44,642,125	58,052,639	17,945,623	45,391,794	166,032,181
Net book value as of December 31, 2018	₱52,016,242	₱9,148,943	₱15,336,064	₱68,012,102	₱144,513,351

December 31, 2017

	EDP Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Office Improvements	Total
Cost					
At January 1, 2017	₱33,945,424	₱64,441,832	₱42,782,264	₱66,612,482	₱207,782,002
Additions	22,772,049	5,791,964	17,103,391	20,569,796	66,237,200
Disposals	—	(3,482,071)	(699,890)	(5,544,605)	(9,726,566)
At December 31, 2017	56,717,473	66,751,725	59,185,765	81,637,673	264,292,636
Accumulated depreciation and amortization					
At January 1, 2017	16,691,128	48,170,978	35,511,979	34,576,118	134,950,203
Depreciation and amortization (Note 19)	10,327,370	6,094,014	4,208,592	12,786,610	33,416,586
Disposals	—	(1,912,500)	(425,513)	(3,494,148)	(5,832,161)
At December 31, 2017	27,018,498	52,352,492	39,295,058	43,868,580	162,534,628
Net book value as of December 31, 2017	₱29,698,975	₱14,399,233	₱19,890,707	₱37,769,093	₱101,758,008

The rollforward analysis of property and equipment at revalued amount for 2018 and 2017 follows:

	Condominium Units	
	2018	2017
Cost		
At January 1	₱376,409,004	₱376,409,004
Additions	—	—
Disposals	—	—
At December 31	376,409,004	376,409,004
Accumulated depreciation and amortization		
At January 1,	234,689,838	225,960,864
Depreciation and amortization (Note 19)	8,728,974	8,728,974
Disposals	—	—
At December 31	243,418,812	234,689,838
Net book value as of December 31	₱132,990,192	₱141,719,166



The Company recognized gain on disposal of asset amounting to ₱97,513 and ₱3,669,152 in 2018 and 2017, respectively.

If condominium units were carried at the cost model, the carrying amount would be as follows:

	2018	2017
Cost	₱60,933,959	₱60,933,959
Less accumulated depreciation	35,509,323	34,209,700
Net carrying amount	₱25,424,636	₱26,724,259

As of December 31, 2018 and 2017, revaluation reserves on property and equipment amounted ₱96,980,228. There were no appraisal changes in 2018 and 2017.

Fair value of the real estate properties was determined using the *Market Data Approach*. This means that the valuation performed by the appraiser are based on sales, listings and other market data of comparable properties registered within the vicinity of subject property. The technique requires reducing reasonably comparative sales and listings to a common denominator in order to conform to the subject property. The comparison among the subject property and the comparable units was premised on the factors of location, size and shape of the lot, highest and best use and the time element. As of January 30, 2017, the real estate properties' fair values are based on the valuations performed by Philippine Appraisal Company, Inc., an accredited independent appraiser.

Description of valuation techniques used and key inputs to valuation on revalued property and equipment are as follows:

Location	Valuation techniques	Significant unobservable inputs	Range (weighted average)
Sen. Gil J. Puyat Avenue, Makati City Plaza	Market Data Approach	Estimated computed value per sqm	₱68,000 to ₱142,544 (₱98,000)
		Net price (₱/sq.m)	₱85,000 to ₱219,298
		Internal factors:	
		Location	10%
		Condition	-5% to -10%
		Utility	10%
		Size	-5% to -20%
Lorenzo Ruiz Corner Oriente St., Binondo, Manila	Market Data Approach	Bargaining allowance	-15%
		Estimated computed value per sqm	₱32,454 to ₱50,000 (₱41,000)
		Net price (₱/sq.m)	₱25,963 to ₱52,632
		Internal factors:	
		Size	5%
		Condition	20%
		Bargaining allowance	-5%

10. Assets held for sale

Assets held for sale pertain to salvage recoverables which consists of amount recoverable on account of losses on direct business. These recoveries are available for immediate sale in its present condition and its sale are highly probable. In 2018 and 2017, management is committed to a plan to sell the assets and is actively locating for buyers.

Salvage recoverables amounted to ₱54,812,000 and ₱27,338,997 as of December 31, 2018 and 2017, respectively.



Gain and loss incurred on sale which is part of gross insurance contract benefits and claims paid under statement of comprehensive income amounted to ₱11,482,232 and ₱8,767,371 as of December 31, 2018 and 2017, respectively.

11. Other assets

This account consists of the following:

	2018	2017
Documentary stamps fund	₱61,603,456	₱67,307,517
Creditable withholding taxes	85,183,105	65,156,035
Deposits and prepayments	22,800,447	15,055,497
Claims fund	8,290,114	7,139,320
Non-proprietary club share (Note 6)	—	200,000
Security fund	51,216	51,216
	₱177,928,338	₱154,909,585

Documentary stamps fund represents fund set-up for documentary stamps affixture to policy contracts. Creditable withholding taxes pertain to the Company's taxes withheld at source by its customers and is creditable against the income tax liability of the Company. Deposits and prepayments pertain to the rental and security deposits on rented properties, and advance payments for the electric meter and telephone.

Claims fund represents fund set-up held by third parties for the payment of claims. Security fund pertains to the fund set-up for payment of claims against insolvent insurance companies in compliance with Section 367 of Presidential Decree (PD) No. 612, as amended under PD No. 1640.

12. Insurance contract liabilities

Insurance contract liabilities may be analyzed as follows:

December 31, 2018

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
Provision for claims reported and loss adjustment expenses	₱3,943,201,604	₱2,776,325,156	₱1,166,876,448
Allowance for doubtful accounts	—	(137,849,391)	137,849,391
Provision for IBNR and ULAE (unallocated loss adjustment expenses)	1,061,876,533	659,168,629	402,707,904
Total claims reported and IBNR (Note 25)	5,005,078,137	3,297,644,394	1,707,433,743
Provision for unearned premiums (Note 16)	2,941,614,144	605,409,309	2,336,204,835
Total insurance contract liabilities	₱7,946,692,281	₱3,903,053,703	₱4,043,638,578



December 31, 2017 (As Restated)

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
Provision for claims reported and loss adjustment expenses	₱3,426,828,154	₱2,257,814,772	₱1,169,013,382
Allowance for doubtful accounts (Note 19)	—	(137,849,391)	137,849,391
Provision for IBNR and ULAE (unallocated loss adjustment expenses)	621,493,537	225,862,568	395,630,969
Total claims reported and IBNR (Note 25)	4,048,321,691	2,345,827,949	1,702,493,742
Provision for unearned premiums (Note 16)	2,933,751,388	659,160,983	2,274,590,405
Total insurance contract liabilities	₱6,982,073,079	₱3,004,988,932	₱3,977,084,147

January 1, 2017 (As Restated)

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
Provision for claims reported and loss adjustment expenses	₱3,166,250,014	1,973,488,496	₱1,192,761,518
Allowance for doubtful accounts (Note 19)	—	(137,849,391)	137,849,391
Provision for IBNR and ULAE (unallocated loss adjustment expenses)	468,541,651	379,297,001	89,244,650
Total claims reported and IBNR (Note 25)	3,634,791,665	2,214,936,106	1,419,855,559
Provision for unearned premiums (Note 16)	2,494,615,989	788,357,512	1,706,258,477
Total insurance contract liabilities	₱6,129,407,654	₱3,003,293,618	₱3,126,114,036

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

December 31, 2018

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	₱4,048,321,691	₱2,345,827,949	₱1,702,493,742
Claims incurred during the year	3,365,147,987	1,338,377,306	2,026,770,681
Increase in IBNR and ULAE (Note 18)	440,382,996	433,306,800	7,076,196
Claims paid during the year (Note 18)	(2,848,774,537)	(819,867,661)	(2,028,906,876)
At December 31	₱5,005,078,137	₱3,297,644,394	₱1,707,433,743



December 31, 2017

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities	Net
At January 1	₱3,634,791,665	₱2,214,936,106	₱1,419,855,559
Claims incurred during the year	2,300,821,160	625,898,394	1,674,922,766
Increase in IBNR and ULAE (Note 18)	152,951,885	(153,434,432)	306,386,317
Claims paid during the year (Note 18)	(2,040,243,019)	(341,572,119)	(1,698,670,900)
	<u>₱4,048,321,691</u>	<u>₱2,345,827,949</u>	<u>₱1,702,493,742</u>

Claims under litigation as of December 31, 2018 and 2017 amounted to ₱875,478,350 and ₱866,302,290, respectively.

Provision for unearned premiums may be analyzed as follows:

December 31, 2018

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
At January 1	₱2,933,751,388	₱659,160,983	₱2,274,590,405
New policies written during the year (Note 16)	5,671,051,665	1,766,457,426	3,904,594,239
Premiums earned during the year (Note 16)	(5,663,188,909)	(1,820,209,100)	(3,842,979,809)
At December 31	<u>₱2,941,614,144</u>	<u>₱605,409,309</u>	<u>₱2,336,204,835</u>

December 31, 2017 (As Restated)

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
As at January 1, as previously presented	₱2,347,166,691	752,756,314	1,594,410,377
Prior period adjustment	147,449,298	35,601,198	111,848,100
As at January 1, as restated	2,494,615,989	₱788,357,512	₱1,706,258,477
New policies written during the year (Note 16)	5,673,605,477	1,594,179,356	4,079,426,121
Premiums earned during the year (Note 16)	(5,234,470,078)	(1,723,375,885)	(3,511,094,193)
At December 31	<u>₱2,933,751,388</u>	<u>₱659,160,983</u>	<u>₱2,274,590,405</u>



13. Insurance payables

This account consists of:

	2018	2017
Due to reinsurers	₱571,988,748	₱610,525,943
Funds held for reinsurers	185,689,907	169,174,319
	₱757,678,655	₱779,700,262

The funds held for reinsurers are interest-bearing, wherein the Company recognized an amount of ₱116,117 and ₱1,161,694 as "Interest expense" charged against the statements of comprehensive income in 2018 and 2017, respectively.

The rollforward analysis of this account follows:

	Due to Reinsurers	Funds Held for Reinsurers	Total
At January 1, 2017	₱729,797,560	₱83,067,747	₱812,865,307
Arising during the year	3,180,029,391	121,917,271	3,301,946,662
Utilized	(3,299,301,008)	(35,810,699)	(3,335,111,707)
At December 31, 2017	610,525,943	169,174,319	779,700,262
Arising during the year	2,887,665,304	160,030,682	3,047,695,986
Utilized	(2,926,202,499)	(143,515,094)	(3,069,717,593)
At December 31, 2018	₱571,988,748	₱185,689,907	₱757,678,655

14. Accounts payable and accrued expenses

This account consists of:

	2018	2017
Accounts payable (Note 25)	₱867,301,106	₱852,217,013
Taxes payable	417,365,380	431,260,360
Commissions payable (Note 25)	531,116,188	370,432,147
Accrued expenses (Note 25)	373,634,831	179,049,469
	₱2,189,417,505	₱1,832,958,989

Accounts payable include amounts due to suppliers which represent payables for goods and services purchased that have been contracted for but not yet settled as of the end of the reporting period which are payable on demand

Taxes payable consists primarily of local government taxes payable, value-added taxes (VAT) payable and withholding taxes payable.

Commissions payable pertain to sales force commissions which are non-interest bearing and payable every month.

Accrued expenses are expected to be settled within twelve (12) months after the end of the reporting period. In addition, provisions for estimated losses was recognized by the Company as of December 31, 2018. The information usually required by PAS 37, Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice the



Company's position. These are non-interest bearing and payable within approved terms within one year.

15. Capital stock and contingency surplus

The Company's capital stock consists of:

	2018		2017	
	Shares	Amount	Shares	Amount
Common stock - P100 par value				
Authorized:	10,000,000	P1,000,000,000	10,000,000	P1,000,000,000
Issued and outstanding:	5,125,000	P512,500,000	5,125,000	P512,500,000

The Company received contingency surplus from its Parent Company amounting to P1.5 billion and P0.3 billion on November 29, 2016 and December 23, 2016, respectively.

16. Net insurance earned premiums

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

	2018	2017 (As restated - Note 2)
Gross premiums on insurance contracts:		
Direct insurance	P5,453,791,578	P5,445,500,915
Assumed reinsurance	217,260,087	228,104,562
Total gross premiums on insurance contracts	5,671,051,665	5,673,605,477
Gross change in provision for unearned premiums	(7,862,756)	(439,135,399)
Total gross earned premiums on insurance contracts (Note 12)	5,663,188,909	5,234,470,078
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	1,647,063,724	1,501,423,641
Assumed reinsurance	119,393,702	92,755,715
Total reinsurers' share of gross premiums on insurance contracts	1,766,457,426	1,594,179,356
Reinsurers' share of gross change in provision for unearned premiums	53,751,674	129,196,529
Total reinsurers' share of gross earned premiums on insurance contracts (Note 12)	1,820,209,100	1,723,375,885
Net insurance earned premiums	P3,842,979,809	P3,511,094,193



17. Interest, other underwriting, dividend and other income

Interest income consists of the following:

	2018	2017
AFS financial assets (Note 6)	₱143,038,376	₱118,348,848
Cash equivalents (Note 4)	28,403,959	19,954,820
Short-term investments (Note 4)	25,136	2,428,998
Unit investment trust funds	—	955,891
Cash in banks (Note 4)	556,296	384,377
Salary loans	219,482	153,327
Car loans	—	2,441
	₱172,243,249	₱142,228,702

Other income - net consists of:

	2018	2017
Other underwriting income	₱6,631,982	₱18,795,032
Foreign exchange gain (loss):		
Unrealized	11,880,036	(7,793,871)
Realized	(63,893)	6,921
Gain (loss) sale of property and equipment	97,513	3,669,152
Others	415,032	14,447,903
	₱18,960,670	₱29,125,137

Other underwriting income pertains to the fronting fees earned by the Company for fronting arrangements made during the year with several agencies and intermediaries. It also includes recoveries from cancelled transactions.

Dividend income from AFS equity financial assets amounted to ₱3,812,566 and ₱4,403,542 in 2018 and 2017, respectively.

18. Net insurance benefits and claims

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

	2018	2017
Direct insurance	₱2,773,010,542	₱1,994,171,544
Assumed reinsurance	75,763,995	46,071,475
Total insurance contract benefits and claims paid (Note 12)	₱2,848,774,537	₱2,040,243,019

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

	2018	2017
Direct insurance	₱780,482,642	308,566,874
Assumed reinsurance	39,385,019	33,005,245
Total reinsurers' share of insurance contract benefits and claims paid (Note 12)	₱819,867,661	₱341,572,119



Gross change in insurance contract liabilities:

	2018	2017
Change in provision for claims reported	₱485,261,233	₱240,128,423
Change in provision for IBNR	440,382,996	152,951,885
Total gross change in insurance contract liabilities (Note 12)	₱925,644,229	₱393,080,308

Reinsurers' share of gross change in insurance contract liabilities:

	2018	2017
Change in provision for claims reported	₱487,554,036	₱264,177,430
Change in provision for IBNR	433,306,800	(153,434,432)
Total reinsurers' share of gross change in insurance contract liabilities (Note 12)	₱920,860,836	₱110,742,998

19. Operating expenses

This account consists of:

	2018	2017
Salaries, allowances and employee benefits (Note 20)	₱515,245,892	₱430,824,869
Other underwriting expense (Note 8)	273,788,824	230,688,113
Outside services	257,108,118	98,462,716
Depreciation and amortization of property and equipment (Note 9)	60,498,817	42,145,560
Rent (Note 24)	48,225,322	19,948,630
Advertising and promotion	47,336,475	48,398,525
Provision for doubtful accounts (Note 5)	35,880,745	104,504,099
Communication and postage	35,834,621	21,889,839
Transportation and travel	28,533,360	21,143,410
Supplies	17,225,809	14,436,073
Representation and entertainment	14,432,001	6,516,727
Utilities	10,069,434	8,708,020
Repairs and maintenance	9,970,348	14,712,933
Association and pool dues	5,692,645	3,286,509
Taxes and licenses	1,726,073	9,665,371
Insurance	489,480	749,613
Bad debts expense	—	909,737
Others	16,593,685	92,909,403
	₱1,378,651,649	₱1,169,900,147

Others include provisions for tax assessment, agency expense and investment expense.



20. Salaries, allowances and employee benefits

Expenses recognized for salaries, allowances and employee benefits are presented below.

	2018	2017
Salaries and wages	₱275,165,047	₱229,867,965
Allowances and bonuses	106,021,992	97,982,973
Other employee benefits	91,751,456	59,045,876
Retirement expense (Note 21)	24,283,367	26,768,688
Director's fees and allowances	5,861,978	7,780,000
Social security costs	8,754,619	7,027,379
PhilHealth insurance contribution	2,674,233	1,761,888
Pag-ibig contribution	733,200	590,100
	₱515,245,892	₱430,824,869

Other employee benefits pertain to the clothing and medical allowances, leave conversion, and holiday pay of the employees during the year.

21. Pension benefits

The Company has a noncontributory defined benefit pension plan, covering substantially all of its employees, which requires contributions to be made by the Company to an administered fund. The Company's retirement fund is administered by Metropolitan Bank and Trust Company (MBTC) as trustee, under the supervision of the Board of Trustees of the plan. The Board of Trustees is responsible for investment of the assets. It defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes account of the plans' objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy). The Board of Trustees delegates the implementation of the investment policy in accordance with the investment strategy as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees.

Under the existing regulatory framework, Republic Act 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 Company also provides additional post employment healthcare benefits to certain employees. These benefits are unfunded.

The following tables summarize the components of net benefit expense recognized in the statement of comprehensive income and the amounts recognized in the statement of financial position:

Net benefit expense

	2018	2017
Current service cost	₱24,283,367	₱26,768,688
Net interest cost	3,403,921	6,304,691
Net benefit expense	₱27,687,288	₱33,073,379



Remeasurement losses on defined benefit obligation

	2018	2017
From defined benefit obligation	₱27,783,469	₱69,300,025
From plan assets	(13,035,070)	(5,551,987)
Total amount to be recognized in OCI	₱14,748,399	₱63,748,038

Net pension obligation

	2018	2017
Defined benefit obligation	₱195,405,230	₱209,475,864
Fair value of plan assets	(137,499,486)	(136,708,754)
Net pension obligation	₱57,905,744	₱72,767,110

Changes in the defined benefit obligation are as follows:

	2018	2017
Defined benefit obligation at January 1	₱209,475,864	₱273,769,614
Current service cost	24,283,367	26,768,688
Actuarial (gains) losses	(27,783,469)	(69,300,025)
Interest cost	11,521,863	13,723,419
Benefits paid from plan assets	(22,092,395)	(35,485,832)
Defined benefit obligation at December 31	₱195,405,230	₱209,475,864

Changes in fair value of plan assets are as follows:

	2018	2017
Fair value of plan assets at January 1	₱136,708,754	₱138,155,929
Interest income	8,117,942	7,418,728
Contributions	27,800,255	32,171,916
Actuarial losses	(13,035,070)	(5,551,987)
Benefits paid	(22,092,395)	(35,485,832)
Fair value of plan assets at December 31	₱137,499,486	₱136,708,754

The principal assumptions used in determining pension obligation for the Company's plan are shown below:

	2018	2017
Discount rate	7.35%	5.75%
Salary increase rate	8.00%	8.00%
Mortality rate	2017 PICM	1994 GAM
	A scale ranging from 13% at age 18 to 0% at age 55	A scale ranging from 13% at age 18 to 0% at age 55
Turnover rate		



Following is the distribution of the Company's plan assets stated at fair value as of December 31:

	2018	2017
Government securities	₱127,574,533	₱124,004,977
Deposit in banks	6,696,511	9,572,393
Receivables	2,084,204	1,951,585
Corporate bonds and debt instruments	988,374	1,031,588
Unit Investment Trust Funds (UITFs)	241,554	235,428
Total assets	137,585,176	136,795,971
Liabilities	(85,690)	(87,217)
Net assets	₱137,499,486	₱136,708,754

The Company expects to contribute ₱27,136,947 to its retirement plan in 2018.

The rollforward analysis of remeasurement loss on retirement plan follows:

	2018	2017
At January 1	(₱37,180,991)	(₱81,804,618)
Recognized in OCI	14,748,399	63,748,038
Tax effect (Note 22)	(4,424,520)	(19,124,411)
At December 31	(₱26,857,112)	(₱37,180,991)

Sensitivities

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

	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
Discount rate	+1.00%	-14,893,399
	-1.00%	17,076,107
Salary increase rate	+1.00%	18,023,207
	-1.00%	-15,998,584
Turnover rate	+2.00%	-6,831,005
	-2.00%	7,943,996

2017

	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
Discount rate	+1.00%	-17,185,090
	-1.00%	19,830,385
Salary increase rate	+1.00%	20,473,633
	-1.00%	-18,094,946
Turnover rate	+2.00%	-8,183,129
	-2.00%	9,455,116



The average duration of the expected benefit payments at the end of the reporting period is 16.78 years.

The following shows the maturity profile for the undiscounted benefits payments of the Company:

2018

Plan Year	Expected Benefit		Total
	Normal Retirement	Payments Other than Normal Retirement	
Less than one year	₱8,960,104	₱6,267,071	₱15,227,175
More than one year to five years	49,495,005	27,713,564	77,208,569
More than five years to 10 years	88,324,712	53,744,979	142,069,691
More than 10 years to 15 years	167,070,494	76,314,187	243,384,681
More than 15 years to 20 years	243,715,373	66,825,340	310,540,713
More than 20 years	570,283,679	78,084,559	648,368,238

2017

Plan Year	Expected Benefit		Total
	Normal Retirement	Payments Other than Normal Retirement	
Less than one year	₱13,680,811	₱4,510,446	₱18,191,257
More than one year to five years	47,187,432	22,494,512	69,681,944
More than five years to 10 years	82,954,387	37,483,052	120,437,439
More than 10 years to 15 years	153,484,293	54,653,623	208,137,916
More than 15 years to 20 years	250,520,705	47,103,667	297,624,372
More than 20 years	521,501,335	50,875,060	572,376,395

22. Income Tax

Current Tax

The provision for current income tax consists of:

	2018	2017
Current	₱17,387,439	₱21,451,585
Final	38,689,048	26,857,437
	₱56,076,487	₱48,309,022



Deferred Tax

The net deferred income tax assets consist of the tax effects of the following:

	December 31		January 1, 2017
	2018	2017	
Deferred tax assets:			
Provision for IBNR and ULAE	₱120,812,371	₱118,689,291	₱26,773,397
Allowance for doubtful accounts	109,783,475	101,711,350	87,050,723
Accrued expenses	160,723,998	69,414,730	—
Deferred reinsurance commissions	41,350,868	32,780,597	33,571,751
Retirement benefit obligation	17,371,723	21,830,134	40,684,106
Unamortized past service cost	6,272,821	6,639,596	6,334,962
Unrealized foreign exchange loss	—	2,338,161	—
PAS 17, Leases adjustment	743,687	—	—
Total deferred tax assets	457,058,943	353,403,859	194,414,939
Deferred tax liabilities:			
Deferred acquisition costs	180,285,780	156,906,794	119,574,431
Reserve for revaluation of property and equipment	32,269,667	34,498,472	36,727,277
Excess of provision for unearned premiums per books over tax basis	4,386,227	3,376,402	1,848,960
Reserve for fluctuation on AFS	637,483	496,746	14,107
PAS 17, Leases adjustment	—	92,858	28,019
Unrealized foreign exchange gain	3,564,011	—	2,326,341
Total deferred tax liabilities	221,143,168	195,371,272	160,519,135
	₱235,915,775	₱158,032,587	₱33,895,804

Movements in deferred tax that were recognized in OCI and profit or loss in 2018 and 2017 follows:

	2018	2017
Recognized in OCI (Notes 6, 9 and 21)	(₱4,565,257)	(₱19,607,050)
Recognized in profit or loss	82,448,445	143,743,832
	₱77,883,188	₱124,136,782

A reconciliation of the statutory income tax rate to effective income tax rate in 2018 and 2017 follows:

	2018	2017
Statutory income tax rate	30.00%	30.00%
Tax effects of:		
Interest income already subject to final tax	19.16	(68.12)
Gain on sale of AFS financial assets	0.27	(22.26)
Dividend income	1.70	(5.71)
Nondeductible expenses	(50.20)	81.64
MCIT	(25.79)	92.69
Unrecognized deferred tax assets	98.18	(493.00)
Effective income tax rate	73.32%	(384.76%)



As of December 31, 2018, the Company did not recognize deferred tax assets on accrued expenses and NOLCO amounting to ₱401,182,898.

Details of the Company's NOLCO follow:

Inception year	Amount	Used/Expired	Balance	Expiry Year
2016	₱979,077,417	₱600,953,232	₱378,124,185	2019

23. Related party transaction

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The Company, in its regular conduct of business, has entered into transactions with related parties principally consisting of the following:

December 31, 2018

Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
Philippine AXA Life Insurance corporation				
Direct premiums	₱597,657	₱-	-	-
Premiums receivable	-	1,171,396	Due and Demandable; Non-interest bearing	Unsecured; no impairment
Shared service cost	-	95,222,201	Due and Demandable; Non-interest bearing	Unsecured; no impairment
Group life insurance coverage	-	245,681	-	-
Metropolitan Bank and Trust Company				
Direct premiums	51,627,090	-	-	-
Premiums receivable	-	33,011,197	Due and Demandable; Non-interest bearing	Unsecured; no impairment
Investment in equity securities	-	6,671,994	Common Shares	Unsecured; no impairment
Time deposit placements	-	1,112,000,000	60 to 90 days 1.50 – 1.75%	-
Accrued interest on time deposits	-	490,861	1.50 – 1.75%	-
Interest income – time deposits	2,928,747	-	1.50 – 1.75%	-
Savings and current deposits	-	183,923,750	0.125 – 0.25%	-
Interest income – savings deposits	348,312	-	0.125 – 0.25%	-
Rent expense	8,425,516	-	-	-
Rental, security and meter deposits	668,137	-	-	-
Retirement fund	-	-	-	-
Metrobank Card Corporation				
Direct premiums	82,380,395	-	-	-
Premiums receivable	-	20,828,6559	Due and demandable; non-interest bearing	Unsecured; no impairment
Time deposit placements	-	25,000,000	90 days 4%	-
Interest Income – time deposits	250,000	-	4%	-

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
First Metro Investment Corporation				
Direct premiums	₱1,390,932	₱—	—	—
Premiums receivable	—	565,930	Due and demandable; non-interest bearing	Unsecured; no impairment
Investment in debt securities	—	9,910,872	7 years, 5.75%	—
Accrued interest on debt securities	—	65,167	5.75%	—
Interest Income – debt securities	2,300,000	—	5.75%	—
Philippine Savings Bank				
Direct premiums	34,348,793	—	—	—
Premiums receivable	—	17,394,185	Due and demandable; non-interest bearing	Unsecured; no impairment
Time deposit placements	—	569,019,069	30 to 95 days, 1.38 – 2.25%	—
Accrued Interest on time deposits	—	280,903	30 to 95 days, 1.38 – 2.25%	—
Interest Income – time deposits	901,454	—	1.38 – 2.25%	—
Investment in debt securities	—	12,704,526	10.25 years, 5.50%	—
Accrued interest on debt securities	—	61,771	5.5%	Unsecured; no impairment
Interest income – debt securities	731,500	—	5.5%	—
Savings deposit	18,981,017	—	.25% – .50%	—
Interest income – savings deposit	122,267	—	.25% – .50%	—
Acquisition of transportation equipment	985,500	—	—	—
Federal Land Inc.				
Direct premiums	44,333,090	—	—	—
Premiums receivable	—	9,532,044	Due and demandable; non-interest bearing	Unsecured; no impairment
Rent expense	10,639,200	—	—	—
Security deposit	3,989,700	—	—	—
Metro Pacific Investments Corporation				
Direct premiums	267,240	—	—	—
Premiums receivable	—	20,331	Due and demandable; non-interest bearing	Unsecured; no impairment
Investment in stocks	—	4,542,312	—	—
Dividend income	55,466	—	—	—
ORIX Metro Leasing and Financing Corporation				
Direct premiums	3,827,518	—	—	—
Premiums receivable	—	244,117	Due and demandable; non-interest bearing	Unsecured; no impairment
Rent expense	10,448	—	—	—
ORIX Auto Leasing Phils. Corporation				
Direct premiums	3,827,518	—	—	—
Premiums receivable	—	244,117	Due and demandable; non-interest bearing	Unsecured; no impairment
Rent expense	10,448	—	—	—
ORIX Rental Corporation				
Direct premiums	52,134,334	—	—	—
Premiums receivable	—	16,843,108	Due and demandable; non-interest bearing	Unsecured; no impairment

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
Toyota Financial Services Philippine Corporation				
Direct premiums	₱9,848,006	₱—	—	—
Premiums receivable	—	14,835,683	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Manila Bay Corporation				
Direct premiums	4,613,877	—	—	—
Premiums receivable	—	1,957,632	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Motors Philippines Corporation				
Direct premiums	6,755,536	—	—	—
Premiums receivable	—	67,909	Due and demandable; non-interest bearing	Unsecured; no impairment
Cathay International Resources Corporation				
Direct premiums	2,470,538	—	—	—
Premiums receivable	—	2,673,027	Due and demandable; non-interest bearing	Unsecured; no impairment
Property Company of Friends Inc.				
Direct premiums	1,391,517	—	—	—
Premiums receivable	—	1,071,362	Due and demandable; non-interest bearing	Unsecured; no impairment
GT Capital Holdings				
Direct premiums	2,364,052	—	—	—
Premiums receivable	—	232,003	Due and demandable; non-interest bearing	Unsecured; no impairment
Investment in equity securities	—	5,662,856	Common shares	—
Dividend income	—	8,190	—	—
Investment in debt securities	—	18,108,984	10 years, 5.09%	Unsecured; no impairment
Accrued interest on debt securities	—	76,971	5.09%	—
Interest income – debt securities	1,018,740	—	5.09%	—
AXA Global RE				
Ceded – Premiums – Treaty	1,319,744,127	—	—	—
Commission Income	171,825,216	—	—	—
Premium reserve withheld for reinsurer – treaty	232,833,947	—	—	—
Reinsurance recoverable on unpaid losses – treaty	1,217,966,419	—	—	—
Premiums due to reinsurer – treaty	—	292,420,242	—	—
AXA Shared Services Centre Philippines Inc.				
Direct Premiums	193,947	—	—	—
Premiums Receivable	—	5,000	—	—
First Metro Securities Brokerage Corporation				
Brokerage Fees	842,236	—	—	—
Premium Receivable	—	167,341	—	—
Direct Premiums	305,217	—	—	—



December 31, 2017

Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
Philippine AXA Life Insurance corporation				
Direct Premiums	₱1,082,274	₱—	—	—
Premiums Receivable	—	224,276	Due and Demandable; Non-interest bearing	Unsecured; no impairment
Shared Service cost	—	11,000,000	Due and Demandable; Non-interest bearing	Unsecured; no impairment
Group Life Insurance coverage	—	2,132,196	—	—
Metropolitan Bank and Trust Company				
Direct Premiums	46,832,772	—	—	—
Premiums Receivable	—	36,768,629	Due and Demandable; Non-interest bearing	Unsecured; no impairment
Investment in equity securities	—	4,877,595	Common Shares	Unsecured; no impairment
Time deposit placements	—	55,093,333	60 to 90 days 1.50 – 1.75%	—
Accrued Interest on time deposits	—	115,596	1.50 – 1.75%	—
Interest Income – time deposits	1,236,665	—	1.50 – 1.75%	—
Savings and current deposits	—	122,274,192	0.125 – 0.25%	—
Interest Income – savings deposits	279,896	—	0.125 – 0.25%	—
Rent Expense	6,276,897	—	—	—
Rental, security and meter deposits	2,908,125	—	—	—
Retirement fund	—	136,708,754	—	—
Metrobank Card Corporation				
Direct Premiums	112,478,795	—	—	—
Premiums Receivable	—	33,101,450	Due and demandable; non- interest bearing	Unsecured; no impairment
First Metro Investment Corporation				
Direct Premiums	1,112,928	—	—	—
Premiums Receivable	—	676,271	Due and demandable; non- interest bearing	Unsecured; no impairment
Investment in debt securities	—	9,907,141	7 years, 5.75%	—
Accrued interest on debt securities	—	81,458	5.75%	—
Interest Income – debt securities	578,667	—	5.75%	—
Rent Expense	716,702	—	—	—
Philippine Savings Bank				
Direct Premiums	69,366,882	—	—	—
Premiums Receivable	—	24,250,020	Due and demandable; non- interest bearing	Unsecured; no impairment
Time deposit placements	—	488,084,373	30 to 95 days, 1.38 – 2.25%	—
Accrued Interest on time deposits	—	678,787	30 to 95 days, 1.38 – 2.25%	—
Interest Income – time deposits	6,501,676	—	1.38 – 2.25%	—
Investment in debt securities	—	13,917,586	10.25 years, 5.50%	—
Accrued interest on debt securities	—	77,214	5.5%	Unsecured; no impairment
Interest income – debt securities	716,115	—	5.5%	—
Savings deposit	2,813,863	—	.25% – .50%	—
Interest income – savings deposit	43,771	—	.25% – .50%	—

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
Federal Land Inc.				
Direct Premiums	₱43,953,345	₱-	-	-
Premiums Receivable	-	3,524,885	Due and demandable; non-interest bearing	Unsecured; no impairment
Metro Pacific Investments Corporation				
Direct Premiums	1,306,240	-	-	-
Premiums Receivable	-	193,492	Due and demandable; non-interest bearing	Unsecured; no impairment
Investment in Stocks	-	2,796,885	-	-
Dividend Income	14,514	-	-	-
ORIX Metro Leasing and Financing Corporation				
Direct Premiums	25,676,922	-	-	-
Premiums Receivable	-	16,055,753	Due and demandable; non-interest bearing	Unsecured; no impairment
Rent Expense	140,000	-	-	-
ORIX Auto Leasing Phils. Corporation				
Direct Premiums	6,523,672	-	-	-
Premiums Receivable	-	2,346,598	Due and demandable; non-interest bearing	Unsecured; no impairment
Rent Expense	58,240	-	-	-
ORIX Rental Corporation				
Direct Premiums	50,980,075	-	-	-
Premiums Receivable	-	18,426,237	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Financial Services Philippine Corporation				
Direct Premiums	101,508,934	-	-	-
Premiums Receivable	-	69,981,514	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Manila Bay Corporation				
Direct Premiums	2,429,800	-	-	-
Premiums Receivable	-	411,372	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Motors Philippines Corporation				
Direct Premiums	84,396	-	-	-
Premiums Receivable	-	78,588	Due and demandable; non-interest bearing	Unsecured; no impairment
Cathay International Resources Corporation				
Direct Premiums	2,353,513	-	-	-
Premiums Receivable	-	2,563,435	Due and demandable; non-interest bearing	Unsecured; no impairment
Property Company of Friends Inc.				
Direct Premiums	2,342,391	-	-	-
Premiums Receivable	-	1,268,844	Due and demandable; non-interest bearing	Unsecured; no impairment
(Forward)				



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
GT Capital Holdings				
Direct Premiums	₱2,276,075	₱-	-	-
Premiums Receivable	-	268,412	Due and demandable; non-interest bearing	Unsecured; no impairment
Investment in equity securities	-	3,392,700	Common shares	-
Investment in debt securities	-	19,774,113	10 years, 5.09%	Unsecured; no impairment
Accrued interest on debt securities	-	96,214	5.09%	-
Interest income – debt securities	922,526	-	5.09%	-
AXA Global RE				
Ceded – Premiums – Treaty	251,127,781	-	-	-
Commission Income	73,161,712	-	-	-
Premium reserve withheld for reinsurer – treaty	107,817,442	-	-	-
Reinsurance recoverable on unpaid losses – treaty	290,994,434	-	-	-
Premiums due to reinsurer – treaty	-	85,724,666	-	-
AXA Shared Services Centre Philippines Inc.				
Direct Premiums	4,010	-	-	-
Premiums Receivable	-	5,000	-	-
First Metro Securities Brokerage Corporation				
Brokerage Fees	842,236	-	-	-
Key Management Personnel				
Salaries and wages	13,409,932.90	-	-	-
Directors' fees and allowance	2,735,000	-	-	-
Other employee benefits	8,186,357.24	-	-	-

24. Lease commitments

The Company is a party under various leases covering certain offices which have lease terms between one to five years for its branches. In 2018 and 2017, rent expense amounted to ₱48,225,322 and ₱19,948,630, respectively, and is included under "Operating expenses" account in the statements of comprehensive income (see Note 19).

Minimum lease payments due:

	2018	2017
Within one (1) year	₱28,929,575	₱8,142,553
More than one (1) year but less than five (5) years	67,658,798	10,642,034
	₱96,588,373	₱18,784,587

25. Management of capital, insurance and financial risks

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the individual business unit levels. The policies define the Company's identification of risk and its interpretation, limit structure to ensure the



appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategy to the corporate goals and specify reporting requirements.

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close right to ensure that the Company is satisfactorily managing the affairs for their benefit. At the same time, the regulators are also ensuring that the Company maintains appropriate solvency position to meet liabilities arising from claims and that the risks 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 and risk-based capital requirements).

On August 5, 2013, the President of the Philippines approved the Republic Act No. 10607 to be known as the “New Insurance Code” which provides the new capitalization requirements of all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022.

On January 13, 2015, the IC issued Circular Letter No. 2015-02-A clarifying the minimum capitalization and net worth requirements of new and existing insurance companies in the Philippines. All domestic life and non-life insurance companies duly licensed by the IC must have a networth of at least ₱250.00 million by December 31, 2013. The minimum net worth of the said companies shall remain unimpaired at all times and shall increase to the amounts as follows:

Networth	Compliance Date
₱550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

As of December 31, 2018, the Company’s estimated statutory net worth amounted to ₱857,287,178 and the Company’s net worth as of December 31, 2017 after verification of the Insurance Commission amounted to ₱1,070,247,637.

As of December 31, 2018 and 2017, the Company has complied with the minimum network requirements.

The premiums received by the Company from policyholders are properly invested not only to provide for policy obligations but also to serve as capital or surplus to provide margin of safety which will attract insurance buyers.

The funds invested shall produce an investment income that will be needed to pay stockholders a fair return. While part of this income are due to favorable loss experience and sound cost management, a major portion of additional profits must be earned by managing the investment portfolio to produce a higher return on investment. While there may be a wide range of investment opportunities, the investment portfolio must always reflect the safety of the funds.

Since these funds are held in fiduciary capacity, the New Insurance Code contains investment provisions that the Company should observe to protect the interest of the policyholders and of the stockholders.



The three (3) general classifications of investment requirements are:

1. **Capital Investments** - The Company must invest at least 25% of its minimum net worth in bonds or other evidences of debt of the Government of the Philippines or its political subdivisions or in government-owned or controlled corporations and entities, including the Bangko Sentral ng Pilipinas.

Furthermore, investments shall at all times be maintained free from any lien or encumbrance and shall be deposited and held by the Commissioner of the IC for the benefit and security of the policyholders.

2. **Reserve Investment** - The Company must invest 100% of the Reserve for unearned premiums and Reserve funds withheld for authorized reinsurer in common or preferred stocks and government or private bonds, real estate and real estate loans, collateral loans, adequately secured obligations and other securities as may be approved by the Commissioner.
3. **Surplus Investment** - After complying with the capital and reserve investment requirements, the Company may invest any portion of its funds, representing earned surplus in stocks, bonds, real estate, equities of other financial institutions, engaged in the buying and selling of short term debt instruments, securities issued by registered enterprises under Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987.

Section 201 of the New Insurance Code provides that a domestic nonlife insurance company shall declare or distribute dividends on its outstanding capital stock only from profits remaining on hand after retaining unimpaired:

- the entire paid-up capital stock;
- the solvency requirements;
- the legal reserve fund required; and
- a sum sufficient to pay all net losses reported or in the course of settlement and all liabilities for expenses and taxes.

Risk-based Capital Requirements

In 2006, the IC issued Memorandum Circular (IMC) No. 7-2006 adopting a risk-based capital framework to establish the required amounts of capital to be maintained by non-life insurance companies in relation to their investment and insurance risks. The RBC ratio of a company shall be calculated as Net worth divided by the RBC requirement. Net worth shall include the Company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of net worth only to the extent authorized by the Insurance Commissioner.

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 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 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 1 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 1 Capital.



The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test.

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

	2018	2017
Total Available Capital	₱789,887,960	₱1,845,722,207
RBC requirement	877,931,221	1,227,384,416
RBC Ratio	90%	150%

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

The Company is currently evaluating its plan of action to meet the minimum RBC ratio for the next quarter in compliance with the requirements per CL 2016-68.

Insurance Risk

The risk under insurance contracts is the possibility of occurrence of insured event and uncertainty of the amount and timing of resulting claims. The principal risk the Company faces under such contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur due to any of the following:

Occurrence risk - the possibility that the number of insured events will differ from those expected.

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

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

The 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 strategy and guidelines.

The business of the Company comprises short-term nonlife insurance contracts. For general insurance contracts, claims are often affected by natural disasters, calamities, terrorist attacks, etc.

These risks currently do not vary significantly in relation to the location of the risk insured by the Company whilst undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

The Company has an objective to control and minimize insurance risk, to reduce volatility of operating profits. The Company manages insurance risk through the following mechanisms:

The use and maintenance of management information systems that provide up-to-date, accurate and reliable data on risk exposure at any point in time.

Guidelines are issued for concluding insurance contracts and assuming insurance risks. Pro-active claims handling procedures are followed to investigate and adjust claims thereby preventing settlement of dubious or fraudulent claims.



Reinsurance is used to limit the Company's exposure to large claims by placing risk with reinsurers providing high security.

Diversification is accomplished by achieving sufficiently large population of risks to reduce the variability of the expected outcome. The diversification strategy seeks to ensure that underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Reinsurance

The Company limits its exposure to loss within insurance operations through participation in reinsurance arrangements. The majority of the business ceded is placed on a quota-share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the statement of financial position as reinsurance assets.

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

The Company is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any reinsurance contract.

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

	2018			2017		
	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities
Fire	₱3,247,392,969	₱2,554,199,592	₱693,193,377	₱1,992,638,935	₱1,385,520,134	₱607,118,801
Engineering	417,379,595	390,721,679	26,657,916	365,145,402	334,692,043	30,453,359
Bonds	220,160,505	155,839,094	64,321,411	293,698,428	205,638,071	88,060,357
Motorcar	225,677,956	170,133,932	55,544,024	698,797,834	6,191,741	692,606,093
Marine	705,511,087	25,938,835	679,572,252	465,433,217	398,589,856	66,843,361
Accident	74,053,325	33,411,472	40,641,853	122,986,046	56,824,830	66,161,216
Casualty	114,902,700	105,249,180	9,653,520	109,621,829	96,220,665	13,401,164
	₱5,005,078,137	₱3,435,493,784	₱1,569,584,353	₱4,048,321,691	₱2,483,677,340	₱1,564,644,351

Terms and Conditions

The major classes of general insurance written by the Company include motor, fire and marine insurance. Risks under these policies usually cover 12-month duration.

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

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

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



Assumptions

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

Sensitivities

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

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

December 31, 2018

	Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity
Average claim cost	-14.58%	(P729,761,791)	(P228,220,134)	P228,220,134	P159,754,094
Average number of claims	50.99%	2,551,279,967	797,867,831	(797,867,831)	(558,507,482)

December 31, 2017

	Change in assumptions	Increase (decrease) in gross liabilities	Increase (decrease) in net liabilities	Increase (decrease) in profit before tax	Increase (decrease) in equity
Average claim cost	-11.87%	(P480,600,724)	(P202,113,317)	P202,113,317	P141,479,322
Average number of claims	34.97%	1,415,576,660	595,310,993	(595,310,993)	(416,717,695)

Claims Development Table

Reproduced below are the tables showing the development of claims over a period of time on a gross and net reinsurance basis for fire, engineering, bonds, motorcar, marine, personal accident and casualty lines.



The tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each end of the reporting period, together with cumulative payments to date.

Gross general insurance contract liabilities for 2018

Accident year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs:											
At the end of accident year	₹2,032,370,629	₹807,390,670	₹951,457,509	₹1,350,928,683	₹2,917,261,545	₹1,515,719,579	₹1,619,274,804	₹2,034,089,100	₹2,656,148,643	₹3,416,535,458	₹3,416,535,458
One year later	1,971,694,785	926,275,974	906,997,045	1,591,481,483	3,519,312,031	1,549,542,693	1,899,225,201	2,015,354,822	2,751,778,537	-	2,751,778,537
Two years later	1,982,805,590	937,239,388	804,260,762	1,607,498,873	3,429,929,240	1,490,389,345	1,861,895,507	1,932,491,728	-	-	1,932,491,728
Three years later	1,941,729,080	932,750,360	803,366,933	1,571,665,711	3,406,750,392	1,492,386,801	1,806,599,560	-	-	-	1,806,599,560
Four years later	2,391,452,591	934,368,007	809,010,072	1,557,621,282	3,381,874,804	1,484,470,639	-	-	-	-	1,484,470,639
Five years later	1,908,686,484	941,370,970	802,823,893	1,557,806,239	3,385,334,286	-	-	-	-	-	3,385,334,286
Six years later	1,895,421,937	942,369,925	800,362,051	1,557,744,007	-	-	-	-	-	-	1,557,744,007
Seven years later	1,849,645,052	757,457,922	800,946,784	-	-	-	-	-	-	-	800,946,784
Eight years later	1,830,377,235	757,601,433	-	-	-	-	-	-	-	-	757,601,433
Nine years later	1,815,663,469	-	-	-	-	-	-	-	-	-	1,815,663,469
Current estimate of cumulative claims	1,815,663,469	757,601,433	800,946,784	1,557,744,007	3,385,334,286	1,484,470,639	1,806,599,560	1,932,491,728	2,751,778,537	3,416,535,458	19,709,165,901
Cumulative payments to date	1,355,142,753	756,327,499	796,746,317	1,549,930,656	3,363,408,215	1,447,675,600	1,768,891,744	1,787,151,932	1,937,361,717	1,503,073,947	16,265,710,382
Total gross insurance liabilities included in the statement of financial position (Note 12)	₹460,520,715	₹1,273,933	₹4,200,467	₹7,813,350	₹21,926,071	₹36,795,039	₹37,707,816	₹145,339,796	₹814,416,820	₹1,913,461,511	₹3,443,455,519

Net general insurance contract liabilities for 2018

Accident year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs:											
At the end of accident year	₹512,731,291	₹445,492,896	₹551,580,189	₹616,963,797	₹836,894,891	₹875,700,175	₹1,169,466,925	₹1,473,984,645	₹1,813,088,914	₹2,232,128,817	₹2,232,128,817
One year later	511,793,713	468,518,851	526,407,111	584,910,030	858,639,188	899,999,664	1,291,517,003	1,665,683,819	1,968,540,892	-	1,968,540,892
Two years later	486,258,305	474,358,289	507,188,893	614,080,804	865,700,402	905,585,344	1,279,703,085	1,626,127,942	-	-	1,626,127,942
Three years later	490,205,137	471,007,437	506,712,393	590,436,495	879,090,431	908,635,860	1,283,574,526	-	-	-	1,283,574,526
Four years later	489,840,224	436,569,147	512,261,564	600,709,077	892,374,433	918,255,055	-	-	-	-	918,255,055
Five years later	472,967,589	438,148,692	512,697,103	603,251,900	896,004,680	-	-	-	-	-	896,004,680
Six years later	483,150,704	436,910,246	510,349,021	603,715,378	-	-	-	-	-	-	603,715,378
Seven years later	483,078,782	439,221,622	510,933,754	-	-	-	-	-	-	-	510,933,754
Eight years later	624,153,597	439,277,648	-	-	-	-	-	-	-	-	439,277,648
Nine years later	619,517,220	-	-	-	-	-	-	-	-	-	619,517,220
Current estimate of cumulative claims	619,517,220	439,277,648	510,933,754	603,715,378	896,004,680	918,255,055	1,283,574,526	1,626,127,942	1,968,540,892	2,232,128,817	11,098,075,911
Cumulative payments to date	485,330,656	438,730,273	507,327,500	601,962,829	876,902,477	896,863,940	1,257,587,832	1,587,620,558	1,610,348,480	1,346,683,482	9,609,358,027
Total net insurance liabilities included in the statement of financial position (Note 12)	₹134,186,564	₹547,375	₹3,606,254	₹1,752,549	₹19,102,203	₹21,391,115	₹25,986,694	₹38,507,384	₹358,192,412	₹885,445,335	₹1,488,717,883



Gross general insurance contract liabilities for 2017

Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
At the end of accident year	₦3,741,669,478	₦2,032,370,629	₦807,390,670	₦951,457,509	₦1,350,928,683	₦2,917,261,545	₦1,515,719,579	₦1,619,274,804	₦2,034,089,100	₦2,656,148,643
One year later	3,822,800,618	1,971,694,785	926,275,974	906,997,045	1,591,481,483	3,519,312,031	1,549,542,693	1,899,225,201	2,015,354,822	2,015,354,822
Two years later	3,290,499,201	1,982,805,590	937,239,388	804,260,762	1,607,498,873	3,429,929,240	1,490,389,345	1,861,895,507	-	1,861,895,507
Three years later	3,215,300,523	1,941,729,080	932,750,360	803,366,933	1,571,665,711	3,406,750,392	1,492,386,801	-	-	1,492,386,801
Four years later	3,225,166,227	2,391,452,591	934,368,007	809,010,072	1,557,621,282	3,381,874,804	-	-	-	3,381,874,804
Five years later	3,221,519,186	1,908,686,484	941,370,970	802,823,893	1,557,806,239	-	-	-	-	1,557,806,239
Six years later	3,227,783,963	1,895,421,937	942,369,925	800,362,051	-	-	-	-	-	800,362,051
Seven years later	3,225,791,430	1,849,645,052	757,457,922	-	-	-	-	-	-	757,457,922
Eight years later	3,227,028,667	1,830,377,235	-	-	-	-	-	-	-	1,830,377,235
Nine years later	3,257,432,251	-	-	-	-	-	-	-	-	3,257,432,251
Current estimate of cumulative claims	3,257,432,251	1,830,377,235	757,457,922	800,362,051	1,557,806,239	3,381,874,804	1,492,386,801	1,861,895,507	2,015,354,822	2,656,148,643
Cumulative payments to date	2,946,436,390	1,351,242,480	756,058,989	796,206,591	1,548,186,435	3,350,858,092	1,408,133,993	1,581,985,943	1,545,264,626	19,611,096,275
Total gross insurance liabilities included in the statement of financial position (Note 12)	₦310,995,861	₦479,134,755	₦1,398,933	₦4,155,460	₦9,619,804	₦31,016,712	₦84,252,808	₦279,909,564	₦470,090,196	₦3,523,324,839

Net general insurance contract liabilities for 2017

Accident year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims costs:											
At the end of accident year	₦1,389,587,579	₦512,731,291	₦445,492,896	₦551,580,189	₦616,963,797	₦836,894,891	₦875,700,175	₦1,169,466,925	₦1,473,984,645	₦1,813,088,914	₦1,813,088,914
One year later	1,315,470,247	511,793,713	468,518,851	526,407,111	584,910,030	838,639,188	899,999,664	1,291,517,003	1,665,683,819	-	1,665,683,819
Two years later	1,306,282,820	486,258,305	474,358,289	507,188,893	614,080,804	865,700,402	905,585,344	1,279,703,085	-	-	1,279,703,085
Three years later	1,288,215,398	490,205,137	471,007,437	506,712,393	590,436,495	879,090,431	908,635,860	-	-	-	908,635,860
Four years later	1,291,877,753	489,840,224	436,569,147	512,261,564	600,709,077	892,374,433	-	-	-	-	892,374,433
Five years later	1,290,486,062	472,967,589	438,148,692	512,697,103	603,251,900	-	-	-	-	-	603,251,900
Six years later	1,267,499,168	483,150,704	436,910,246	510,349,021	-	-	-	-	-	-	510,349,021
Seven years later	1,267,566,040	483,078,782	439,221,622	-	-	-	-	-	-	-	439,221,622
Eight years later	1,268,137,557	624,153,597	-	-	-	-	-	-	-	-	624,153,597
Nine years later	1,394,087,442	-	-	-	-	-	-	-	-	-	1,394,087,442
Current estimate of cumulative claims	1,394,087,442	624,153,597	439,221,622	510,349,021	603,251,900	892,374,433	908,635,860	1,279,703,085	1,665,683,819	1,813,088,914	10,130,549,693
Cumulative payments to date	1,257,388,457	483,144,242	438,574,247	506,790,266	601,037,357	869,021,008	883,361,688	1,221,395,827	1,405,025,555	737,850,981	8,409,589,628
Total net insurance liabilities included in the statement of financial position (Note 12)	₦136,698,985	₦141,009,355	₦647,375	₦3,558,755	₦2,214,543	₦23,353,425	₦25,274,172	₦52,307,258	₦260,658,264	₦1,075,237,933	₦1,720,960,065



Financial Instruments

The table below presents the carrying amounts and fair values of the Company's non-derivative financial instruments as of December 31, 2018 and 2017.

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents	₱986,510,698	₱986,510,698	₱1,262,840,629	₱1,262,840,629
Short-term investments	3,000,000	3,000,000	113,500,000	113,500,000
Insurance receivables - net	2,870,072,382	2,870,072,382	2,651,096,021	2,651,096,021
Loans and receivables:				
Accounts receivable - net	46,220,867	46,220,867	20,395,330	20,395,330
Accrued income	34,572,807	34,572,807	35,545,414	35,545,414
AFS Financial Assets				
Equity securities	332,971,026	332,971,026	222,239,187	222,239,187
Government debt	2,904,026,788	2,904,026,788	2,853,647,065	2,853,647,065
Private debt	652,310,377	652,310,377	599,699,811	599,699,811
Total Financial Assets	₱7,829,684,945	₱7,829,684,945	₱7,758,963,457	₱7,758,963,457
Other Financial Liabilities:				
Provision for claims reported by policyholders and IBNR	₱5,005,078,137	₱5,005,078,137	₱4,048,321,691	₱4,048,321,691
Insurance payables:				
Due to reinsurers	571,988,748	571,988,748	610,525,943	610,525,943
Funds held for reinsurers	185,689,907	185,689,907	169,174,319	169,174,319
Accounts payable and accrued expenses				
Accounts payable	867,301,106	867,301,105	852,217,013	852,217,013
Commissions payable	531,116,188	531,116,188	370,432,147	370,432,147
Accrued expenses	373,634,832	373,634,832	179,049,469	179,049,469
Total Other Financial Liabilities	₱7,534,808,918	₱7,534,808,917	₱6,229,720,582	₱6,229,720,582

Due to the short-term nature of cash and cash equivalents, short-term investments, insurance receivables, loans and receivables, insurance payables, and accounts payable and accrued expenses, their carrying values reasonably approximate fair values at year-end.

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

The fair value of unquoted equity shares where the fair value is not reasonably determinable due to the unpredictable nature of cash flows and the lack of suitable method at arriving at a reliable fair value are carried at cost.



Fair Value Hierarchy

The Company classifies its financial assets and property and equipment at fair value as follows:

December 31, 2018

	Date of valuation	Quoted in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:					
AFS financial assets					
Government debt securities	December 31	₱2,904,026,788	₱-	₱-	₱2,904,026,788
Private debt securities	December 31	652,310,377	-	-	652,310,377
Quoted equity securities:					
Common shares	December 31	193,645,376	-	-	193,645,376
Preferred shares	December 31	35,579,000	-	-	35,579,000
Club shares	December 31	103,690,000	-	-	103,690,000
Property and equipment:					
Real estate properties	December 7, 2017	-	-	153,645,510	153,645,510
Total		₱3,889,251,541	₱-	₱153,645,510	₱4,042,897,051

December 31, 2017

	Date of valuation	Quoted in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:					
AFS financial assets					
Government debt securities	December 31	₱2,853,647,065	₱-	₱-	₱2,853,647,065
Private debt securities	December 31	599,699,811	-	-	599,699,811
Quoted equity securities:					
Common shares	December 31	121,428,537	-	-	121,428,537
Preferred shares	December 31	34,894,000	-	-	34,894,000
Club shares	December 31	66,860,000	-	-	66,860,000
Property and equipment:					
Real estate properties	December 7, 2017	-	-	153,645,510	153,645,510
Total		₱3,676,529,413	₱-	₱153,645,510	₱3,830,174,923

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

- Level 1:* quoted (unadjusted prices) in active markets for identical assets and 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

As of December 31, 2018 and 2017, the Company classifies AFS financial assets under Level 1 and 2 of the fair value hierarchy.

During the reporting period ended December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.



Financial Risk

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

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 risks that the Company primarily faces due to the nature of its investments and liabilities are credit risk, liquidity risk and interest rate risk.

The Company's objectives in managing exposure to financial risks include providing financial security to policyholders, ensure prompt payment of its obligations and to provide owners with a satisfactory return on their investments.

To ensure that these objectives are met, the Company's policies and procedures require monitoring of financial risks by the Comptroller and regularly reviewed by the BOD.

Credit risk

Credit risk is a risk due to uncertainty in a counterparty's (also called an obligor) ability to meet its obligation.

Management has established a credit control policy, which provides for terms of business and credit reference criteria. The policy requires that financial references are obtained for each agent and broker when credit is given. Credit terms are set for the counterparty but these are withdrawn or restricted when these are breached. Any deviation from the policy requires justification subject to approval by the management.

The Company's procedures provide for the monitoring of the counterparty's ability to meet its obligations through regular review of each account. Statements of accounts with covering letter are regularly sent to agents and brokers reminding them of their outstanding balances and to follow up payment. Reconciliation of accounts is also done on a regular basis.

The credit control policy is regularly reviewed by the management and amended as necessary.

For cash and cash equivalents and investments, the Company considers the safety of the investment, yield or income, liquidity, diversification, capital growth and appreciation.

The following are the acceptable instruments set up by the Investment Committee in order of priority:

1. Government securities
2. Special savings accounts/ bank promissory notes
3. Commercial papers with credit rating of two (2) for short term and B for long term
4. Preferred and common stocks (blue chip stocks only)



The table below shows the maximum exposure to credit risk for the components of its statement of financial position:

	2018	2017
Cash and cash equivalents (excluding cash on hand)	₱986,005,426	₱1,262,330,637
Short-term investments	3,000,000	113,500,000
Insurance receivables	2,870,072,382	2,651,096,021
Financial assets:		
AFS financial assets		
Quoted equity securities	332,914,376	222,182,537
Unquoted equity securities	56,650	56,650
Quoted debt securities	3,556,337,165	3,453,346,876
Loans and receivables	80,793,674	55,940,744
	₱7,829,179,673	₱7,758,453,465

The Company does not hold any collateral held as security and other credit enhancements on its financial assets as of December 31, 2018 and 2017. Therefore, the Company's maximum exposure to credit risk is equal to the carrying amount of its financial assets as of December 31, 2018 and 2017.

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

December 31, 2018

	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Satisfactory		
Cash and cash equivalents	₱986,005,426	₱	₱	₱986,005,426
Short-term investments	3,000,000	—	—	3,000,000
Insurance receivables:				
Premiums receivable and agents' balances	—	920,953,004	1,351,563,026	2,272,516,030
Reinsurance recoverable on paid losses	469,655,078	153,418,284	55,944,935	679,018,297
Due from ceding companies	—	85,606,244	21,559,890	107,166,134
Bonds recoverable on paid losses	—	2,171,361	27,101,362	29,272,723
Funds held by ceding companies	—	8,323,031	—	8,323,031
Financial assets:				
AFS financial assets:				
Quoted equity securities:				
Common shares	193,645,376	—	—	193,645,376
Preferred shares	35,579,000	—	—	35,579,000
Club shares	—	103,690,000	—	103,690,000
Unquoted equity securities:				
Common shares	—	35,125	—	35,125
Preferred shares	—	21,525	—	21,525
Government debt securities:				
Local currency	2,860,964,158	—	—	2,860,964,158
Foreign currency	43,062,630	—	—	43,062,630
Private debt securities	652,310,377	—	—	652,310,377
Loans and receivables:				
Accounts receivable	—	14,338,105	33,754,457	48,092,562
Accrued income	35,137,070	408,344	—	35,545,414
Total	₱5,279,359,115	₱1,288,965,023	₱1,489,923,670	₱8,058,247,808



December 31, 2017

	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Satisfactory		
Cash and cash equivalents	₱1,021,329,145	₱241,001,492	₱-	₱1,262,330,637
Short-term investments	113,500,000	-	-	113,500,000
Insurance receivables:				
Premiums receivable and agents' balances	-	985,983,255	1,139,712,228	2,125,695,483
Reinsurance recoverable on paid losses	224,671,482	206,901,143	142,428,485	574,001,110
Due from ceding companies	-	62,590,269	47,169,534	109,759,803
Bonds recoverable on paid losses	-	-	29,272,723	29,272,723
Funds held by ceding companies	-	11,683,649	-	11,683,649
Financial assets:				
AFS financial assets:				
Quoted equity securities:				
Common shares	121,428,537	-	-	121,428,537
Preferred shares	33,894,000	-	-	33,894,000
Club shares	-	66,860,000	-	66,860,000
Unquoted equity securities:				
Common shares	-	35,125	-	35,125
Preferred shares	-	21,525	-	21,525
Government debt securities:				
Local currency	2,809,457,556	-	-	2,809,457,556
Foreign currency	44,189,509	-	-	44,189,509
Private debt securities	589,792,670	9,907,141	-	599,699,811
Loans and receivables:				
Accounts receivable	-	20,395,330	1,871,695	22,267,025
Accrued income	35,137,070	408,344	-	35,545,414
Total	₱4,993,399,969	₱1,605,787,273	₱553,025,919	₱7,959,641,907

The Company uses a credit rating concept based on the borrowers and counterparties' overall creditworthiness, as follows:

Investment grade - This rating class is given to borrowers and counterparties who possess strong to very strong capacity to meet its obligations. These financial assets have the smallest degree of financial risk.

Satisfactory - This rating class is given to borrowers and counterparties who possess above average capacity to meet its obligations.

The tables below show the analysis of age of financial assets that are past due or impaired:

December 31, 2018

	Age analysis of financial assets past-due but not impaired				Total past due but not impaired	Past-due and impaired	Total
	1 to 30 days	31 to 60 days	61 to 90 days	over 90 days			
Insurance receivables:							
Premiums receivable and agents' balances	₱200,873,216	₱176,143,432	₱140,003,481	₱834,542,897	₱1,351,563,026	₱-	₱1,351,563,026
Reinsurance recoverable on paid losses	97,716,493	11,728,417	13,564,350	113,812,869	236,822,129	60,359,431	297,181,560
Due from ceding companies	3,590,638	2,374,498	2,798,805	34,158,619	42,922,560	17,185,729	60,108,289
Bonds recoverable on paid losses	-	-	-	2,171,361	2,171,361	27,101,362	29,272,723
Accounts receivable	2,697,010	1,177,907	3,856,750	24,151,095	31,882,762	1,871,695	33,754,457
Total	₱304,877,357	₱191,424,254	₱160,223,386	₱1,008,836,841	₱1,665,361,838	₱106,518,217	₱1,771,880,055



December 31, 2017

	Age analysis of financial assets past-due but not impaired				Total past due but not impaired	Past-due and impaired	Total
	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days			
Insurance receivables:							
Premiums receivable and agents' balances	P196,930,153	P147,765,244	P159,481,903	P635,534,928	P1,139,712,228	P-	P1,139,712,228
Reinsurance recoverable on paid losses	9,195,844	15,594,450	10,835,386	60,810,107	96,435,787	55,188,542	151,624,329
Due from ceding companies	7,841,257	6,442,872	4,021,350	19,519,583	37,825,062	17,185,729	55,010,791
Bonds recoverable on paid losses	-	-	-	2,171,361	2,171,361	27,101,362	29,272,723
Accounts receivable	-	-	-	-	-	1,871,695	1,871,695
Total	P213,967,254	P169,802,566	P174,338,639	P618,194,865	P1,176,303,324	P201,188,442	P1,377,491,766

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; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

Liquidity risk is a risk due to uncertain liquidity. An institution may suffer liquidity problem when its credit rating falls. The Company is also exposed to liquidity risk if markets on which it depends on are subject to loss of liquidity.

It is the Company's objective to develop a plan that will provide a well-balanced cash flow to ensure that enough cash is available to meet its obligations and to fund its operational requirements. A well-managed cash flow statement will yield positive cash balance in compliance to the requirement of the IC.

To meet these objectives, the Company prepares a Cash Flow Plan which entails forecasting and tabulating all significant cash inflows relating to premiums paid by policyholders, interest received from investments and others, and analyzing in detail the timing of expected payments relating to supplies, wages, other expenses, capital expenditure, dividends, tax, and others. Excess funds resulting from a positive cash flows are invested in short term placements and high yielding government securities.

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

December 31, 2018

	No term	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	Total
Cash and cash equivalents	P-	P986,510,697	P-	P-	P-	P986,510,697
Short-term investments	-	3,000,000	-	-	-	3,000,000
Insurance receivables	-	2,870,072,382	-	-	-	2,870,072,382
Financial assets:						
AFS financial assets	332,971,026	749,885,502	1,951,144,005	442,897,862	412,409,796	3,889,308,191
Loans and receivables	-	80,793,674	-	-	-	80,793,674
Reinsurance assets	-	3,903,053,701	-	-	-	3,903,053,701
Total financial assets	P332,971,026	P8,592,810,685	P1,951,144,005	P442,897,862	P412,409,796	P11,732,233,374

(Forward)



	No term	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	Total
Provision for claims reported by policyholders and IBNR	P-	P3,943,201,604	P-	P-	P-	P3,943,201,604
Insurance payables	-	757,678,655	-	-	-	757,678,655
Accounts payable and accrued expenses:						
Accounts payable	-	867,301,106	-	-	-	867,301,106
Commissions payable	-	531,116,188	-	-	-	531,116,188
Accrued expenses	-	373,634,832	-	-	-	373,634,832
Total financial liabilities	P-	P6,472,932,385	P-	P-	P-	P6,472,932,385

December 31, 2017

	No term	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	Total
Cash and cash equivalents	P-	P1,262,840,629	P-	P-	P-	P1,262,840,629
Short-term investments	-	113,500,000	-	-	-	113,500,000
Insurance receivables	-	2,651,096,021	-	-	-	2,651,096,021
Financial assets:						
AFS financial assets	222,239,187	660,274,991	1,361,468,239	821,919,162	609,684,485	3,675,586,064
Loans and receivables	-	55,940,744	-	-	-	55,940,744
Reinsurance assets	-	2,967,578,032	-	-	-	2,967,578,032
Total financial assets	P222,239,187	P7,711,230,417	P1,361,468,239	P821,919,162	P609,684,485	P10,726,541,490
Provision for claims reported by policyholders and IBNR	P-	P3,426,828,153	P-	P-	P-	P3,426,828,153
Insurance payables	-	779,700,262	-	-	-	779,700,262
Accounts payable and accrued expenses:						
Accounts payable	-	852,217,013	-	-	-	852,217,013
Commissions payable	-	370,432,147	-	-	-	370,432,147
Accrued expenses	-	179,049,469	-	-	-	179,049,469
Total financial liabilities	P-	P5,608,227,044	P-	P-	P-	P5,608,227,044

Market risk

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

Market risk is the risk to an institution's financial condition from volatility in the price movements of the assets contained in a portfolio. Market risk represents what the Company would lose from price volatilities. Market risk can be measured as the potential gain or loss in a position or portfolio that is associated with a price movement of a given probability over a specified time horizon.

The Company manages market risk by evenly distributing capital among investment instruments.

The Company structures the levels of market risk it accepts through a sound market risk policy based on specific guidelines set by the Investment Committee. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation and portfolio limit structure.

Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

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 the US Dollar, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements.



The Company's financial assets are denominated in the same currencies as its insurance liabilities which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

The following table summarizes the Company's exposure to foreign currency exchange risk as of December 31, 2018 and 2017:

	2018		2017	
	US\$	PHP	US\$	PHP
Assets				
Cash and cash equivalents	\$3,405,097	179,530,353	\$2,053,704	₱102,541,445
AFS financial assets	816,756	43,062,630	885,029	44,189,508
Premiums receivable and agents' balances	4,201,084	221,497,951	5,800,022	289,595,090
	8,422,937	444,090,934	8,738,755	436,326,043
Liabilities				
Due to reinsurers	\$3,007,680	₱158,576,945	\$4,317,295	₱215,562,523
	3,007,680	158,576,945	4,317,295	215,562,523
Net exposure	\$5,415,257	₱285,513,989	\$4,421,460	₱220,763,520

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

December 31, 2018

	Change in variables	Impact on profit before tax Increase (decrease)
USD	4%	₱11,420,559
USD	-4%	(11,420,559)

December 31, 2017

	Change in variables	Impact on profit before tax Increase (decrease)
USD	+6%	₱8,830,541
USD	-6%	(8,830,541)

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

Interest rate risk

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

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk. The Company's fixed rate investments in particular are exposed to fair value interest rate risk.



The Company's market risk policy requires it to manage interest rate risk by investing in fixed rate instruments.

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:

	Maturity					Total
	Interest Rates	Within 1 year	1-3 years	3-5 years	Over 5 years	
AFS financial assets						
2018	3.25 - 8.25%	₱749,885,502	₱1,951,144,005	₱442,897,862	₱412,409,79	₱3,556,337,165
2017	2.13% - 8.13%	₱660,274,991	₱1,361,468,239	₱821,919,162	₱609,684,485	₱3,453,346,876

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

December 31, 2018

	Change in variables	Impact on equity
		Increase (decrease)
AFS Debt securities	+150 basis points	(₱98,298,627)
	-150 basis points	102,459,600

December 31, 2017

	Change in variables	Impact on equity
		Increase (decrease)
AFS Debt securities	+150 basis points	(₱120,101,252)
	-150 basis points	122,776,202

Price risk

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

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

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

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 AFS financial assets).

December 31, 2018

	Change in Variable	Impact on equity
		Increase (decrease)
PSEi	2.09%	4,626,572
PSEi	-2.09%	-4,626,572



December 31, 2017

	Change in Variable	Impact on equity Increase (decrease)
PSEi	+2.44%	₱2,938,878
PSEi	-2.44%	(2,938,878)

26. Reconciliation of net income (loss) under PFRS to statutory net income (loss)

The reconciliation of net profit under PFRS and statutory net profit follows:

	2018	2017
PFRS net income (loss)	(₱17,983,059)	₱69,651,177
Difference in change in reserve for unearned premiums	(1,658,196)	(12,962,560)
Deferred acquisition costs – net	(86,668,378)	86,668,378
Statutory net income	(₱106,309,633)	₱143,356,995

27. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities by contractual maturity and settlement dates:

	2018			2017		
	Due within one year	Beyond one year	Total	Due within one year	Beyond one year	Total
Assets						
Cash and cash equivalents	₱986,510,697	₱–	₱986,510,697	₱1,262,840,629	₱–	₱1,262,840,629
Short term investments	3,000,000	–	3,000,000	113,500,000	–	113,500,000
Insurance receivables – net	2,870,072,384	–	2,870,072,384	2,651,096,021	–	2,651,096,021
Loans and receivables	80,793,674	–	80,793,674	55,940,744	–	55,940,744
Reinsurance assets	3,903,053,703	–	3,903,053,703	3,004,988,932	–	3,004,988,932
Assets held for sale	54,812,000	–	54,812,000	27,338,997	–	27,338,997
Deferred acquisition costs	600,952,599	–	600,952,599	523,022,648	–	523,022,648
Deferred tax assets	–	235,915,775	235,915,775	–	158,032,587	158,032,587
Other assets	82,341,280	95,587,058	177,928,338	83,891,396	71,018,189	154,909,585
Available-for-sale financial assets						
Quoted equity securities at fair value:						
Common shares	193,645,376	–	193,645,376	121,428,537	–	121,428,537
Preferred shares	35,579,000	–	35,579,000	33,894,000	–	33,894,000
Club shares	103,690,000	–	103,690,000	66,860,000	–	66,860,000
Unquoted equity securities at cost:						
Common shares	35,125	–	35,125	35,125	–	35,125
Preferred shares	21,525	–	21,525	21,525	–	21,525
Government debt securities local currency	677,112,144	2,183,852,014	2,860,964,158	433,351,147	2,376,106,409	2,809,457,556
Corporate debt securities local currency	–	43,062,630	43,062,630	–	44,189,509	44,189,509
Golf club shares	72,773,358	579,537,019	652,310,377	73,782,577	525,917,234	599,699,811
Property and equipment – net	–	277,503,543	277,503,543	–	243,477,174	243,477,174
	9,664,392,865	3,415,458,039	13,079,850,904	8,451,992,278	3,418,741,102	11,870,733,380
Liabilities						
Insurance contract liabilities	7,946,692,281	–	7,946,692,281	6,982,073,079	–	6,982,073,079
Insurance payables	757,678,655	–	757,678,655	779,700,262	–	779,700,262
Accounts payable and accrued expenses	2,189,417,505	–	2,189,417,505	1,832,958,989	–	1,832,958,989
Income tax payable	13,313,287	–	13,313,287	–	–	–
Deferred Reinsurance Commissions	137,836,227	–	137,836,227	109,268,658	–	109,268,658
Retirement Benefit Obligation	–	57,905,744	57,905,744	–	72,767,110	72,767,110
	11,044,937,955	57,905,744	11,102,843,699	9,704,000,988	72,767,110	9,776,768,098
	(₱1,380,545,090)	₱3,357,552,295	₱1,977,007,205	(₱1,252,008,710)	₱3,345,973,992	₱2,093,965,282



28. Contingent liabilities

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

29. Supplementary information required under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year.

- a. The Company is a Value-Added Tax (VAT) registered company with output VAT declaration of ₱584,792,017 for the year based on Vatable Sales/Receipts of ₱4,873,266,805.

The Company has zero-rated sales amounting to ₱91,23,312.

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

	2018
Balance at January 1	₱-
Current year's purchases/payments:	
Goods other than for resale	78,230,868
Services paid lodged under operating expenses	141,111,635
	219,342,504
Claims for tax credit/refund and other adjustments	(27,264,447)
Balance at December 31	₱192,078,056

- b. The Documentary Stamp Tax (DST) paid on the following transactions are:

Transaction	DST
Policy issuance:	
Based on premiums	₱4,967,817,117 ₱621,393,020
Based on sum insured	610,503,557,100 10,027,240

- c. Other taxes paid are:

Transaction	Amount	Tax
Premium tax	₱448,951,800	₱8,979,036

- d. Details of other taxes, local and national, including real estate taxes, license and permit fees lodged under the "Taxes and licenses" account under "Operating expenses" in the statement of comprehensive income follow:

<i>Local:</i>	
Business license	₱503,740
Real estate taxes	417,886
Communicate tax certificate	22,700
	944,326

(Forward)



National:

Motor vehicle registration fees	84,654
Registration fees	12,000
Miscellaneous	685,093
	781,747
Total	₱1,726,073

The Company paid fire service tax amounting to ₱20,677,202.

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

	Total Remittances	Amounts Outstanding
Expanded withholding taxes	₱118,658,314	₱10,287,735
Tax on compensation and benefits	43,547,133	2,670,246
Final withholding taxes	4,682,616	539,521
Fringe benefit tax	1,267,664	215,808
Final withholding VAT	70,7250	43,269
Total	₱168,862,977	₱13,756,579

- f. On June 29, 2018, the Company paid deficiency Expanded Withholding Tax (2,014,021), Withholding Tax on Compensation (4,998,648) and Final Withholding VAT (266,634) inclusive of increments for taxable year ending December 31, 2013 pursuant to Letter of Authority No. 125-2014-00000117 dated September 8, 2014.

On July 11, 2018, the Company paid deficiency Income Tax (575,482), Value-Added Tax (20,481,832), Percentage Tax (181,569), Documentary Stamp Tax (2,793,657) and Miscellaneous Charges (78,000) inclusive of increments for taxable year ending December 31, 2013 still in pursuant to above-mentioned Letter of Authority.

On February 18, 2019, the Company paid deficiency Income Tax (328,508), Value Added Tax (16,899,132), Percentage Tax (468,905), Expanded Withholding Tax (2,828,301), Withholding Tax on Compensation (2,248,469), Final Withholding Tax (543,014), Final Withholding VAT (5,621,921), Documentary Stamp Tax (14,174,281), Annual Registration Fee (2,584) and Miscellaneous Charges (291,000) inclusive of increments for taxable year ending December 31, 2014 pursuant to Letter of Authority No. AUDR05/004142/2015 dated August 25, 2015.

- g. The Company has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.





Building a better
working world

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Charter Ping An Insurance Corporation
29th Floor, GT Tower International,
6813 Ayala Avenue,
Makati City

We have audited the financial statements of Charter Ping An Insurance Corporation (a wholly owned subsidiary of Philippine AXA Life Insurance Corporation) (the Company) for the year ended December 31, 2018 on which we have rendered the attached report dated April 25, 2019.

In compliance with Securities Regulation Code Rule No. 68, As Amended (2011), we are stating that the Company has only one (1) stockholder owning more than one hundred (100) shares.

SYCIP GORRES VELAYO & CO.

Arnel F. De Jesus
Partner

CPA Certificate No. 43285
SEC Accreditation No. 0075-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 152-884-385
BIR Accreditation No. 08-001998-15-2018,
March 14, 2018, valid until March 13, 2021
PTR No. 7332542, January 3, 2019, Makati City

April 25, 2019

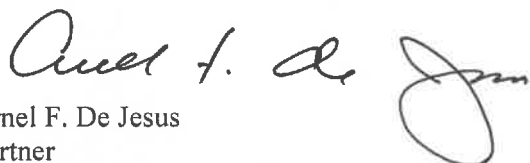


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
Charter Ping An Insurance Corporation
29th Floor, GT Tower International,
6813 Ayala Avenue,
Makati City

We have audited in accordance with Philippine Standards on Auditing the financial statements of Charter Ping An Insurance Corporation at and for the years ended December 31, 2018 and 2017 and have issued our report thereon dated April 25, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of all effective standards and interpretations under PFRS and reconciliation of retained earnings available for dividend declaration as of December 31, 2018 are the responsibility of the Company's management. These schedules are presented for the purpose of complying with the Securities Regulation Code Rule 68, as Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Arnel F. De Jesus
Partner

CPA Certificate No. 43285
SEC Accreditation No. 0075-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
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March 14, 2018, valid until March 13, 2021
PTR No. 7332542, January 3, 2019, Makati City

April 25, 2019



CHARTER PING AN INSURANCE CORPORATION
SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS
UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS
DECEMBER 31, 2018

Below is the list of all Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2018:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3	Business Combinations			✓
PFRS 4	Insurance Contracts	✓		
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts		✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments		✓	
PFRS 10	Consolidated Financial Statements			✓
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts	✓		
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

CHARTER PING AN INSURANCE CORPORATION

Ground Floor, Skyland Plaza
Sen. Gil J. Puyat Avenue corner Tindalo Street,
Makati City

Schedule of Reconciliation of Retained Earnings Available for Dividend Declaration As of December 31, 2018

(Figures based on functional currency audited financial statements)

Unappropriated Retained Earnings, beginning	(₱193,386,685)
Adjustment:	
Effects of prior period adjustments	(131,158,028)
Deferred tax assets in previous year's reconciliation	(54,783,780)
Unappropriated Retained Earnings, as adjusted, beginning	(379,328,493)
Net loss based on the face of FS	(17,983,059)
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	—
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	—
Unrealized actuarial gain	—
Fair value adjustment (marked-to-market gains)	—
Fair value adjustment of investment property resulting to gain	—
Adjustment due to deviation from PFRS/GAAP - gain	—
Other unrealized gains or adjustments to the Retained Earnings as a result of certain transactions accounted for under the PFRS	—
Provision for deferred tax asset - net	(82,448,445)
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	—
Adjustment due to deviation from PFRS/GAAP - loss	—
Fair value adjustment (marked-to-market losses)	—
Loss on fair value adjustment of investment property (after tax)	—
Net income actually earned during the year	(100,431,504)
Add (less):	
Dividend declarations during the year	—
Appropriations of Retained Earnings during the year	—
Reversal of appropriations	—
Treasury shares	—
TOTAL (DEFICIT), END AVAILABLE FOR DIVIDEND	(₱479,759,997)

Note: The Company is subject to the regulatory requirements of the Insurance Commission such as Fixed Capitalization Requirements and Risk-based Capital Requirements.