

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, 2017 and 2016, 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

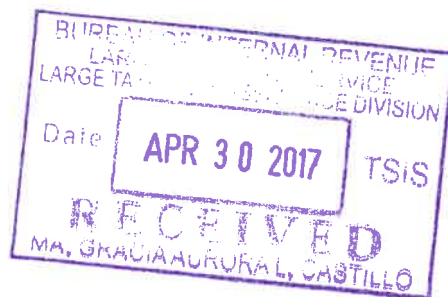
Basis for Opinion

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

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, 2017, but does not include the financial statements and our auditor's report thereon. The Annual Report for the year ended December 31, 2017 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.

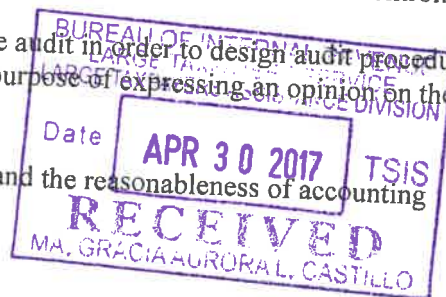
Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 28 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.

Bernalette L. Ramos

Bernalette L. Ramos

Partner

CPA Certificate No. 0091096

SEC Accreditation No. 0926-AR-2 (Group A),

June 16, 2016, valid until June 16, 2019

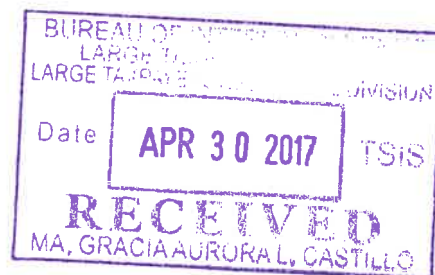
Tax Identification No. 178-486-666

BIR Accreditation No. 08-001998-81-2015,

May 12, 2015, valid until May 11, 2018

PTR No. 6621314, January 9, 2018, Makati City

February 28, 2018



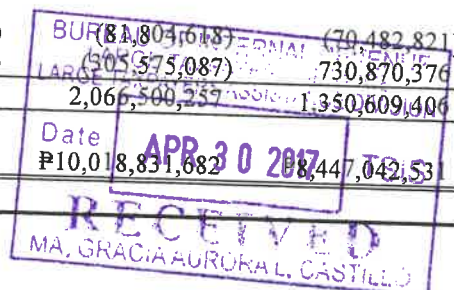
CHARTER PING AN INSURANCE CORPORATION

STATEMENTS OF FINANCIAL POSITION



	December 31	2016	2016
	2017	(As restated- Note 2)	(As restated- Note 2)
ASSETS			
Cash and cash equivalents (Notes 4, 23 and 25)	P1,262,840,629	P1,507,028,832	P894,454,998
Short-term investments (Notes 4 and 25)	113,500,000	2,000,000	2,000,000
Insurance receivables - net (Notes 5 and 25)	2,651,096,021	1,658,080,506	1,781,562,202
Financial assets (Notes 6 and 25)			
Available-for-sale financial assets	3,675,586,063	3,121,224,133	1,614,036,318
Loans and receivables - net	55,940,744	33,058,691	42,205,882
Reinsurance assets (Notes 7, 12 and 25)	2,967,578,032	2,967,692,420	3,456,502,674
Deferred acquisition costs (Note 8)	494,085,351	361,277,464	363,935,307
Property and equipment - net (Note 9)	243,477,174	223,279,940	218,277,558
Assets held for sale (Note 10)	27,338,997	33,514,420	35,438,814
Net deferred tax assets (Note 22)	161,517,222	43,770,071	-
Other assets (Note 11)	154,909,585	67,905,205	38,628,778
TOTAL ASSETS	P11,807,869,818	P10,018,831,682	P8,447,042,531
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 12 and 25)	P6,798,110,066	P5,981,958,356	P5,706,190,924
Insurance payables (Notes 13 and 25)	779,700,262	812,865,307	361,817,213
Accounts payable and accrued expenses (Notes 14 and 25)	1,832,958,989	914,190,649	768,104,725
Net Retirement benefit obligation (Note 21)	72,767,110	135,613,685	126,972,330
Net deferred tax liability	-	-	29,757,786
Deferred reinsurance commissions (Note 8)	99,210,081	107,703,428	103,590,147
Total Liabilities	9,582,746,508	7,952,331,425	7,096,433,125
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	-
Additional paid-in capital	6,634,245	6,634,245	6,634,245
Revaluation reserve on:			
Available-for-sale financial assets (Note 6)	39,576,513	37,765,489	84,218,905
Property and equipment (Note 9)	96,980,228	96,980,228	86,868,701
Remeasurement loss on defined benefit obligation (Note 21)	(37,180,991)	(81,804,618)	(70,482,821)
Retained earnings (deficit)	(193,386,685)	(505,575,087)	730,870,376
Total Equity	2,225,123,310	2,066,500,257	1,350,609,406
TOTAL LIABILITIES AND EQUITY	P11,807,869,818	P10,018,831,682	P8,447,042,531

See accompanying Notes to Financial Statements.



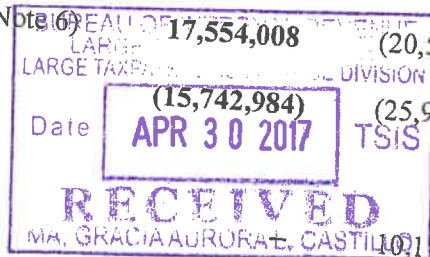
CHARTER PING AN INSURANCE CORPORATION

STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31

	2017	2016 (As restated- Note 2)
Gross earned premiums on insurance contracts	₱5,270,983,792	₱4,678,387,600
Reinsurers' share of gross earned premiums on insurance contracts	(1,725,185,587)	(2,705,223,606)
Net insurance earned premiums (Notes 12 and 16)	3,545,798,205	1,973,163,994
Commission income (Note 8)	153,839,022	164,735,784
Interest income (Note 17)	142,228,702	99,603,857
Gain on sale of available-for-sale financial assets (Note 6)	18,649,508	33,672,292
Dividend income (Note 17)	4,403,542	5,137,164
Others – net (Note 17)	29,125,137	37,617,961
Other income	348,245,911	340,767,058
Total income	3,894,044,116	2,313,931,052
Gross insurance contract benefits and claims paid	2,039,942,147	1,868,020,926
Reinsurers' share of gross insurance contract benefits and claims paid	(341,572,118)	(591,778,441)
Gross change in insurance contract liabilities	413,530,025	49,916,353
Reinsurers' share of gross change in insurance contract liabilities	(130,891,844)	339,284,854
Net insurance benefits and claims (Notes 12 and 18)	1,981,008,210	1,665,443,692
Operating expenses (Note 19)	1,159,190,349	1,062,525,240
Commission expense (Note 8)	723,235,949	668,298,429
Interest expense (Notes 13 and 21)	7,466,384	7,452,249
Other expenses	1,889,892,682	1,738,275,918
Total benefits, claims and other expenses	3,870,900,892	3,403,719,610
Income (loss) before income tax	23,143,224	(1,089,788,558)
Current	48,309,022	19,590,801
Deferred	(137,354,200)	(72,933,893)
Income tax benefit (Note 22)	(89,045,178)	(53,343,092)
NET INCOME (LOSS)	112,188,402	(1,036,445,466)
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will be reclassified into profit or loss in subsequent periods:		
Unrealized fair value losses on available-for-sale financial (Note 6)	17,554,008	(20,519,654)
Fair value loss on available-for-sale financial assets transferred to profit or loss (Note 6 and 19)	(15,742,984)	(25,933,762)
Items that will not be reclassified into profit or loss in subsequent periods:		
Change in revaluation reserve on property and equipment, net of tax effect (Note 9)		1,527
Remeasurement losses on defined benefit obligation, net of tax effect (Note 21)		
Total other comprehensive income (loss)	44,623,627	(11,321,797)
TOTAL COMPREHENSIVE INCOME (LOSS)	46,434,651	(47,663,686)
	₱158,623,053	(₱1,084,109,152)

See accompanying Notes to Financial Statements.



CHARTER PING AN INSURANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

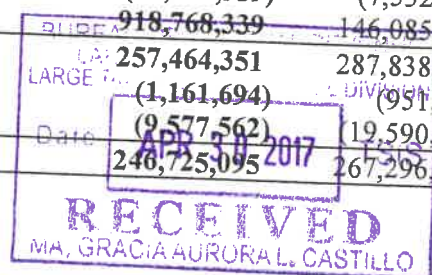
	Revaluation Reserves					Total
	Capital stock (Note 15)	Contingency surplus (Note 15)	Additional paid-in capital	Available- for-sale financial assets (Note 6)	Property and equipment (Note 9)	Remeasurement loss on defined benefit obligation Retained earnings (Note 21) (deficit)
As of January 1, 2017 As previously presented	₱512,500,000	₱1,800,000,000	₱6,634,245	₱37,765,489	₱96,980,228	(₱81,804,618)
Changes in accounting policies (Note 2)						
As restated	₱512,500,000	₱1,800,000,000	₱6,634,245	₱37,765,489	₱96,980,228	(₱81,804,618)
Net income for the year						(₱228,762,893)
Other comprehensive income						(76,812,194)
Total comprehensive income						(₱305,575,087)
As of December 31, 2017	₱512,500,000	₱1,800,000,000	₱6,634,245	1,811,024	—	112,188,402
				1,811,024	—	44,623,627
				₱39,576,513	₱96,980,228	112,188,402
As of January 1, 2016, As previously presented	₱512,500,000	₱1,800,000,000	₱6,634,245	₱39,576,513	₱96,980,228	(₱37,180,991)
Changes in accounting policies (Note 2)						
As restated	₱512,500,000	₱1,800,000,000	₱6,634,245	₱84,218,905	₱86,868,701	(₱70,482,821)
Capital contribution during the year						₱841,884,142
Net income for the year						(111,013,766)
Other comprehensive income (loss)						₱730,870,376
Total comprehensive income (loss)						₱1,350,609,406
As of December 31, 2016	₱512,500,000	₱1,800,000,000	₱6,634,245	(46,453,416)	10,111,527	(1,036,445,463)
				(46,453,416)	10,111,527	(47,663,686)
				₱37,765,489	₱96,980,228	(₱81,804,618)
						(₱305,575,087)
						₱2,066,500,257



CHARTER PING AN INSURANCE CORPORATION

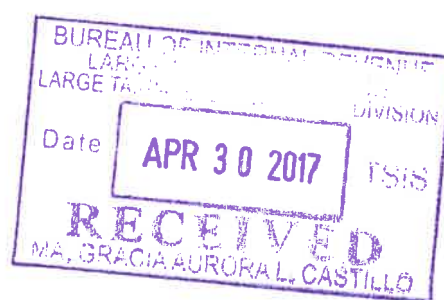
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016 (As restated- Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax		
Adjustments for:	₱23,143,224	(₱1,089,788,558)
Interest income (Note 17)		
Depreciation and amortization (Notes 9, 11 and 19)	(142,228,702)	(99,603,857)
Loss (gain) on sale of available-for-sale financial assets (Note 6)	42,145,560	37,187,447
Impairment loss on available-for-sale financial assets (Notes 6 and 19)	(18,649,508)	(33,672,292)
Impairment losses on insurance receivables and reinsurance assets- net (Notes 5, 12 and 19)	-	7,738,530
Impairment loss on loans and receivables (Notes 6 and 19)	104,504,099	238,339,641
Impairment loss on other assets (Notes 11 and 19)	-	1,858,102
Dividend income (Note 17)	-	2,724,982
Interest expense on insurance payables (Note 13)	4,403,542	(5,137,164)
Bad debts expense (Note 19)	1,161,694	951,266
Loss (gain) on sale of property and equipment (Notes 9 and 17)	909,737	-
Operating loss before working capital changes	(3,669,152)	101,618
Decrease (increase) in:	11,720,494	(939,300,285)
Reinsurance assets	114,387	350,960,865
Insurance receivables	(1,098,429,351)	22,991,446
Deferred acquisition costs	(132,807,883)	2,657,839
Short-term investments	(111,500,000)	-
Assets held for sale	6,175,423	1,924,394
Loans and receivables	13,081,365	11,129,395
Other assets	(86,804,383)	(32,007,111)
Increase (decrease) in:		
Insurance contract liabilities	816,151,711	275,767,431
Insurance payables	(33,165,045)	451,048,094
Deferred reinsurance commissions	(8,493,347)	4,113,281
Retirement benefit obligation	(37,347,359)	(7,532,641)
Accounts payable and accrued expenses	918,768,339	146,085,925
Net cash generated from operations	257,464,351	287,838,633
Interest paid (Note 13)	(1,161,694)	(951,266)
Income tax paid	(9,577,562)	(19,590,796)
Net cash provided by operating activities	246,725,095	267,296,571
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of:		
Available-for-sale financial assets (Note 6)	627,179,093	746,645,953
Property and equipment (Note 9)	7,563,559	373,743
Acquisition of:		
Available-for-sale financial assets (Note 6)	(1,180,194,932)	(2,277,887,077)
Property and equipment (Note 9)	(66,237,201)	(28,214,447)
Interest received	125,179,725	99,221,927
(Forward)		



	Years Ended December 31	
	2017	2016 (As restated- Note 2)
Dividends received	(P4,403,542)	P5,137,164
Net cash used in investing activities	(490,913,298)	(1,454,722,737)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contingency surplus contribution (Note 15)	—	1,800,000,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(244,188,203)	612,573,834
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,507,028,832	894,454,998
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P1,262,840,629	P1,507,028,832

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.

On March 29, 2016, Philippine AXA Life Insurance Corporation (AXA Philippines) completed the acquisition of the Company for ₱2.10 billion. 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 February 28, 2018.

2. Summary of significant accounting policies

Basis of Preparation

The accompanying financial statements have been prepared using the historical cost basis, except for available-for-sale (AFS) financial assets and certain property and equipment, which have been measured at fair value and asset held for sale 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

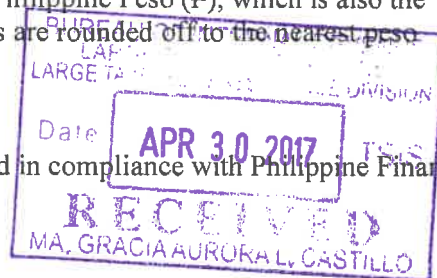
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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, 2017. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Effective in 2017

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



- Circular Letter 2016-67, *Valuation Standards for Non-life Insurance Policy Reserves*
The circular prescribes the new valuation methodology for the non-life insurance companies.

The incurred but not reported (IBNR) reserves was computed using actuarial projection techniques such as but not limited to the chain ladder method, expected loss ratio method and Bornheutter-Ferguson method. Unearned premiums was calculated based on the 24th method for all classes of business.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows:

<i>Statements of Financial Position</i>	As previously reported	As at December 31, 2016	
		Effect of adoption	As restated
Increase (decrease) in:			
Reinsurance assets	₱2,578,253,068	₱389,439,352	₱2,967,692,420
Deferred acquisition costs	354,789,596	6,487,868	361,277,464
Net deferred tax assets	98,553,851	(54,783,780)	43,770,071
Insurance contract liabilities	5,565,475,688	416,482,668	5,981,958,356
Deferred reinsurance commissions	106,230,458	1,472,970	107,703,428
Retained earnings	(228,762,893)	(76,812,194)	(305,575,087)

<i>Statements of Comprehensive Income</i>	Year ended December 31, 2016		
Increase (decrease) in:			
Gross earned premiums on insurance contracts	₱4,690,693,151	(₱12,305,551)	₱4,678,387,600
Reinsurer's share of gross earned premiums on insurance contracts	(2,712,590,557)	7,366,951	(2,705,223,606)
Commission income	165,312,234	(576,450)	164,735,784
Gross change in insurance contract liabilities	300,214,306	(250,297,953)	49,916,353
Reinsurers' share of gross change in insurance contract liabilities	139,719,854	199,565,000	339,284,854
Commission expense	669,563,913	(1,265,484)	668,298,429
Provision for deferred tax benefit	(85,215,710)	12,281,817	(72,933,893)



<i>Statements of Financial Position</i>	As at January 1, 2016		
	As previously reported	Effect of adoption	As restated
Increase (decrease) in:			
Reinsurance Assets	₱2,874,865,274	₱581,637,400	₱3,456,502,674
Deferred Acquisition Costs	358,712,921	5,222,386	363,935,307
Net deferred tax asset	12,744,176	(12,744,176)	—
Net deferred tax liability	—	29,757,786	29,757,786
Insurance contract liabilities	5,051,715,854	654,475,070	5,706,190,924
Deferred reinsurance commissions	102,693,627	896,520	103,590,147
Retained earnings	841,884,142	(111,013,766)	730,870,376

Future changes in Accounting Policies

Effective beginning on or after January 1, 2018

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the application of the forthcoming insurance contracts standard on January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The Company is assessing which approach it will use and the potential impact of the chosen approach in its financial statements.

- PFRS 9, *Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.



The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting and on the amount of its credit losses. The Company is currently assessing the impact of adopting this standard.

Effective beginning on or after January 1, 2019

- **PFRS 16, *Leases***

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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

Deferred effectivity

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

Product Classification

Insurance contracts 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, 2017 and 2016, 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 earnings. 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 and IBNR (included in insurance contract liabilities), 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 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 as part of "Insurance contract liabilities" and presented in the liabilities section of the statement of financial position. 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.

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.

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 expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in 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

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

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 insurance 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 Period

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

3. Significant accounting judgments and estimates

The preparation of the financial statements in accordance with 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 ₱4,048,321,691 and ₱3,634,791,666 as of December 31, 2017 and 2016, 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 ₱3,675,586,063 and ₱3,121,224,133 as of December 31, 2017 and 2016, 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 ₱199,316,747 and ₱150,447,991, amounted to ₱2,651,096,021 and ₱1,658,080,506 as of December 31, 2017 and 2016, respectively (see Note 5). Loans and receivables, net of allowance for doubtful accounts amounted to ₱55,940,744 and ₱33,058,691 as of December 31, 2017 and 2016, respectively (see Note 6). In 2016, the Company recognized impairment loss amounting to ₱7,738,530, on its AFS financial assets (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 ₱243,477,174 and ₱223,279,940 as of December 31, 2017 and 2016, 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, 2017 and 2016, property and equipment carried at fair value amounted to and ₱141,719,166 and 150,448,141, 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 ₱243,477,174 and ₱223,279,940 as of December 31, 2017 and 2016, respectively (see Note 9). The carrying value of assets held for sale



amounted to ₱27,338,997 and ₱33,514,420 as of December 31, 2017 and 2016, 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, 2017, and 2016, deferred tax assets amounted to ₱161,517,222 and ₱43,770,071, 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 ₱72,767,110 and ₱135,613,685 as of December 31, 2017 and 2016, 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:

	2017	2016
Cash on hand	₱509,992	₱484,971
Cash in banks	199,271,447	164,642,517
Cash equivalents	1,063,059,190	1,341,901,344
	₱1,262,840,629	₱1,507,028,832



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 3.00% in 2017 and 0.80% to 2.50% in 2016.

Interest income earned from cash equivalents and cash in banks amounted to ₱19,954,820 and ₱384,377, respectively, in 2017 and ₱18,159,996, and ₱392,326, respectively, in 2016 (see Note 17). Accrued interest income on cash equivalents as of December 31, 2017 and 2016 amounted to ₱375,420 and ₱1,724,565, respectively (see Note 6).

Short-term investments

Short-term investments consist of money market placements amounting to ₱113,500,000 and ₱2,000,000 as of December 31, 2017 and 2016, 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 ₱2,428,998 and ₱24,653 in 2017 and 2016, respectively (see Note 17). Accrued interest income on short-term investments as of December 31, 2017 and 2016 amounted to ₱1,843,462 and ₱24,653, respectively (see Note 6).

5. Insurance receivables - net

This account consists of:

	2017	2016
Premiums receivable and agents' balances	₱2,125,695,483	₱1,157,120,040
Reinsurance recoverable on paid losses	574,001,110	530,660,194
Due from ceding companies	109,759,803	76,623,697
Bonds recoverable on paid losses	29,272,723	29,951,572
Funds held by ceding companies	11,683,649	14,172,994
	2,850,412,768	1,808,528,497
Less allowance for doubtful accounts	199,316,747	150,447,991
	₱2,651,096,021	₱1,658,080,506

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, 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

December 31, 2016

	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	₱843,298,111	₱96,717,967	₱62,920,768	₱46,779,360	₱107,403,834	₱1,157,120,040
Reinsurance recoverable on paid losses	385,875,788	7,033,825	18,269,446	16,197,959	103,283,176	530,660,194
Due from ceding companies	37,132,569	1,619,902	1,075,654	1,033,096	35,762,476	76,623,697
Bonds recoverable on paid losses	-	-	-	-	29,951,572	29,951,572
Funds held by ceding companies	14,172,994	-	-	-	-	14,172,994
	₱1,280,479,462	₱105,371,694	₱82,265,868	₱64,010,415	₱276,401,058	₱1,808,528,497

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

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
Individually impaired	₱-	₱55,188,542	₱17,185,729	₱27,101,362	₱99,475,633
Collectively impaired	99,841,114	-	-	-	99,841,114
	₱99,841,114	₱55,188,542	₱17,185,729	₱27,101,362	₱199,316,747



December 31, 2016

	Premiums receivable and agents' balances	Reinsurance recoverable on paid losses	Due from ceding companies	Bonds recoverable on paid losses	Total
At January 1, 2016	₱19,674,316	₱27,283,425	₱3,000,000	₱-	₱49,957,741
Impairment during the year (Note 19)	5,434,400	52,608,713	15,345,775	27,101,362	100,490,250
At December 31, 2016	₱25,108,716	₱79,892,138	₱18,345,775	₱27,101,362	₱150,447,991
Individually impaired	₱-	₱79,892,138	₱18,345,775	₱27,101,362	₱125,339,275
Collectively impaired	25,108,716	-	-	-	25,108,716
	₱25,108,716	₱79,892,138	₱18,345,775	₱27,101,362	₱150,447,991

6. Financial assets

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

	2017	2016
AFS financial assets	₱3,675,586,063	₱3,121,224,133
Loans and receivables- net	55,940,744	33,058,691
	₱3,731,526,807	₱3,154,282,824

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

a. AFS financial assets

	2017	2016
Equity securities - at fair value		
Quoted:		
Common shares	₱121,428,537	₱43,487,193
Preferred shares	33,894,000	34,575,000
Club shares	66,860,000	63,180,000
Unquoted securities - at cost		
Common shares	35,125	35,125
Preferred shares	21,525	21,525
Total equity securities	222,239,187	141,298,842
Debt securities - at fair value		
Government securities:		
Local currency	2,809,457,556	2,510,819,114
Foreign currency	44,189,509	43,783,085
Private debt securities	599,699,811	425,323,092
Total debt securities	3,453,346,876	2,979,925,291
Total AFS financial assets recognized in the statements of financial position	₱3,675,586,063	₱3,121,224,133



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

	2017	2016
Equity securities - at cost		
Quoted:		
Common shares - net of impairment loss amounting to ₱26,973,366 as of 2017 and 2016, respectively	₱102,740,345	₱34,982,500
Preferred shares	32,010,000	32,010,000
Club shares - net of impairment loss amounting to ₱150,000 as of 2017 and 2016, respectively	3,572,500	3,767,500
Unquoted securities - at cost		
Common shares	35,125	35,125
Preferred shares	21,525	21,525
Total equity securities	138,379,495	70,816,650
Debt securities - at cost or amortized cost		
Quoted:		
Government debt securities:		
Local currency	2,853,081,994	2,553,080,138
Foreign currency	40,152,343	55,952,218
Private debt securities	603,898,976	403,684,917
Total debt securities	3,497,133,313	3,012,717,273
Total AFS financial assets at cost or amortized cost	₱3,635,512,808	₱3,083,533,923

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

	2017	2016
At January 1	₱3,121,224,133	₱1,614,036,318
Additions	1,180,194,932	2,277,887,077
Maturities and disposals	(627,179,093)	(746,645,953)
Amortization of premium	(19,397,080)	(3,458,376)
Fair value losses charged against other comprehensive income	20,943,171	(20,594,933)
Reclassification adjustment (Note 11)	(200,000)	—
At December 31	₱3,675,586,063	₱3,121,224,133

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

	2017	2016
At January 1	₱37,765,489	₱84,218,905
OCI		
Changes in fair value of AFS financial assets	20,943,171	(20,594,933)
Tax effect	(482,639)	75,279
Transferred to profit or loss:		
Realized loss on sale of AFS financial assets	(18,649,508)	(33,672,292)
Provision for impairment losses (Note 19)	—	7,738,530
At December 31	₱39,576,513	₱37,765,489



b. *Loans and receivables - net*

This account consists of:

	2017	2016
Accounts receivable	₱22,267,025	₱16,433,948
Impairment during the year (Note 19)	(1,871,695)	(1,871,695)
Accounts receivable - net	20,395,330	14,562,253
Accrued interest income on:		
Cash equivalents (Note 4)	375,420	1,724,565
Short-term investments (Note 4)	1,843,462	24,653
AFS debt securities (Note 6)	33,326,532	16,747,220
	₱55,940,744	₱33,058,691

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 securities.

The rollforward analysis of allowance for doubtful accounts on accounts receivables follows

	2017	2016
At January 1	₱1,871,695	₱13,593
Impairment during the year (Note 19)	—	1,858,102
At December 31	₱1,871,695	₱1,871,695

7. **Reinsurance assets**

This account consists of the following:

	2017	2016
Reinsurance recoverable on unpaid losses	₱2,257,814,772	₱1,973,488,496
Less allowance for doubtful accounts	(137,849,391)	(137,849,391)
Reinsurance recoverable on unpaid losses - net (Note 12 and 25)	2,119,965,381	1,835,639,105
Reinsurance share on IBNR (Note 12)	225,862,568	379,297,001
Deferred reinsurance premiums (Note 12)	621,750,083	752,756,314
	₱2,967,578,032	₱2,967,692,420



8. **Deferred acquisition costs and deferred reinsurance commissions**

Deferred acquisition costs

The rollforward analyses of this account follow:

December 31, 2017

	Commission Expense	Other Acquisition Costs (Note 19)	Total
At January 1	₱284,197,134	₱77,080,329	₱361,277,463
Costs deferred during the year	770,667,113	210,225,163	980,892,276
Amortization during the year	(723,235,949)	(124,848,439)	(848,084,388)
At December 31	₱331,628,297	₱162,457,053	₱494,085,351

December 31, 2016

	Commission Expense	Other Acquisition Costs (Note 19)	Total
At January 1	₱275,359,387	₱88,575,920	₱363,935,307
Costs deferred during the year	677,136,175	101,858,375	778,994,550
Amortization during the year	(668,298,429)	(113,353,964)	(781,652,393)
At December 31	₱284,197,133	₱77,080,331	₱361,277,464

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:

	2017	2016
At January 1	₱107,703,428	₱103,590,147
Income deferred during the year	145,345,675	168,849,065
Amortization during the year	(153,839,022)	(164,735,784)
At December 31	₱99,210,081	₱107,703,428



9. Property and equipment- net

The rollforward analyses of this account follow:

December 31, 2017

	Condominium Units	EDP Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Office Improvements	Total
Cost						
At January 1, 2017	₱376,409,004	₱33,945,424	₱64,441,832	₱42,782,264	₱66,612,482	₱584,191,006
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	376,409,004	56,717,473	66,751,725	59,185,765	81,637,673	640,701,640
Accumulated depreciation and amortization						
At January 1, 2017	₱225,960,864	₱16,691,128	₱48,170,978	₱35,511,979	₱34,576,118	₱360,911,067
Depreciation and amortization (Note 19)	8,728,974	10,327,370	6,094,014	4,208,592	12,786,610	42,145,560
Disposals	-	-	(1,912,500)	(425,513)	(3,494,148)	(5,832,161)
At December 31, 2017	234,689,838	27,018,498	52,352,492	39,295,058	43,868,580	397,224,466
Net book value as of December 31, 2017	₱141,719,166	₱29,698,975	₱14,399,233	₱19,890,707	₱37,769,093	₱243,477,174

December 31, 2016

	Condominium Units	EDP Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Office Improvements	Total
Cost						
At January 1, 2016	₱333,049,936	₱95,645,939	₱64,026,826	₱39,986,659	₱77,833,408	₱610,542,768
Additions	-	12,648,738	4,159,946	2,795,604	8,610,159	28,214,447
Revaluation	43,359,068	-	-	-	-	43,359,068
Disposals	-	(1,668,159)	(3,744,940)	-	-	(5,413,099)
Write-off	-	(72,681,094)	-	-	(19,831,085)	(92,512,179)
At December 31, 2016	376,409,004	33,945,424	64,441,832	42,782,263	66,612,482	584,191,005
Accumulated depreciation and amortization						
At January 1, 2016	₱189,819,546	₱84,300,715	₱45,047,617	₱31,209,565	₱41,887,767	₱392,265,210
Depreciation and amortization (Note 19)	7,227,289	6,730,230	6,402,637	4,302,413	12,519,173	37,181,742
Revaluation	28,914,028	-	-	-	-	28,914,028
Disposals	-	(1,660,871)	(3,279,276)	-	-	(4,940,147)
Write-off	-	(72,678,946)	-	-	(19,830,822)	(92,509,768)
At December 31, 2016	225,960,863	16,691,128	48,170,978	35,511,978	34,576,118	360,911,065
Net book value as of December 31, 2016	₱150,448,141	₱17,254,296	₱16,270,854	₱7,270,285	₱32,036,364	₱223,279,940

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

	2017	2016
Cost	₱60,933,959	₱60,933,959
Less accumulated depreciation	34,209,700	32,910,078
Net carrying amount	₱26,724,259	₱28,023,881



The rollforward analysis of revaluation reserve on property and equipment follows:

	2017	2016
At January 1	₱96,980,228	₱86,868,701
Appraisal increase	—	14,445,040
Tax effect	—	(4,333,513)
At December 31	₱96,980,228	₱96,980,228

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 December 7, 2017 and January 8, 2018, the dates of revaluation, 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	2017 Range (weighted average)	2016 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)	₱56,000 to ₱142,544 (₱95,000)
		Net price (₱/sq.m)	₱85,000 to ₱219,298	₱75,000 to ₱219,298
		Internal factors:		
		Location	10%	10%
		Condition	-5% to -10%	-5% to -10%
		Utility	10%	10%
		Size	-5% to -20%	-5% to -20%
		Bargaining allowance	-15%	-15%
Lorenzo Ruiz Corner Oriente St., Binondo, Manila	Market Data Approach	Estimated computed value per sqm	₱32,454 to ₱50,000 (₱41,000)	₱32,454 to ₱50,000 (₱41,000)
		Net price (₱/sq.m)	₱25,963 to ₱52,632	₱25,963 to ₱52,632
		Internal factors:		
		Size	5%	5%
		Condition	20%	20%
		Bargaining allowance	-5%	-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 2017 and 2016, management is committed to a plan to sell the assets and is actively locating for buyers.

Salvage recoverables amounted to ₱27,338,997 and ₱33,514,420 as of December 31, 2017 and 2016, respectively.

Loss incurred on sale which is part of gross insurance contract benefits and claims paid under statement of comprehensive income amounted to ₱8,767,371 and ₱7,174,587 as of December 31, 2017 and 2016, respectively.



11. Other assets

This account consists of the following:

	2017	2016
Documentary stamps fund	₱67,307,517	₱-
Creditable withholding taxes	65,156,035	59,607,303
Deposits and prepayments	15,055,497	8,246,686
Claims fund	7,139,320	-
Non-proprietary club share (Note 6)	200,000	-
Security fund	51,216	51,216
	₱154,909,585	₱67,905,205

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.

In 2016, deposits amounting to ₱2,724,982 have been written-off.

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:

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2017	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net 2016
Provision for claims reported and loss adjustment expenses	₱3,426,828,154	₱2,257,814,772	₱1,169,013,382	₱3,166,250,014	₱1,973,488,496	₱1,192,761,518
Allowance for doubtful accounts (Note 19)	-	(137,849,391)	137,849,391	-	(137,849,391)	137,849,391
Provision for IBNR and ULAE (unallocated loss adjustment expenses)	621,493,537	225,862,568	395,630,969	468,541,652	379,297,001	89,244,651
Total claims reported and IBNR (Note 25)	4,048,321,691	2,345,827,949	1,702,493,742	3,634,791,666	2,214,936,106	1,419,855,560
Provision for unearned premiums (Note 16)	2,749,788,375	621,750,083	2,128,038,292	2,347,166,690	752,756,314	1,594,410,376
Total insurance contract liabilities	₱6,798,110,066	₱2,967,578,032	₱3,830,532,034	₱5,981,958,356	₱2,967,692,420	₱3,014,265,936



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

December 31, 2017

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
At January 1	₱3,634,791,666	₱2,214,936,105	₱1,419,855,561
Claims incurred during the year	2,300,520,287	625,898,395	1,674,621,892
Increase in IBNR and ULAE (Note 18)	152,951,885	(153,434,432)	306,386,317
Claims paid during the year (Note 18)	(2,039,942,147)	(341,572,119)	(1,698,370,028)
At December 31	₱4,048,321,691	₱2,345,827,949	₱1,702,493,742

December 31, 2016

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
At January 1	₱3,584,875,313	₱2,692,070,350	₱892,804,963
Claims incurred during the year	2,066,093,224	452,058,587	1,614,034,637
Increase in IBNR and ULAE (Note 18)	(209,118,348)	(199,565,000)	(9,553,348)
Increase in IBNER (Note 18)	60,962,403	—	60,962,403
Provision for impairment loss (Note 19)	—	(137,849,391)	137,849,391
Claims paid during the year (Note 18)	(1,868,020,926)	(591,778,441)	(1,276,242,485)
At December 31	₱3,634,791,666	₱2,214,936,105	₱1,419,855,561

Claims under litigation as of December 31, 2017 and 2016 amounted to ₱866,302,290 and ₱1,023,012,201, respectively.

Provision for unearned premiums may be analyzed as follows:

December 31, 2017

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
At January 1	₱2,347,166,690	₱752,756,315	₱1,594,410,375
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)	(5,270,983,792)	(1,725,185,587)	(3,545,798,205)
At December 31	₱2,749,788,375	₱621,750,084	₱2,128,038,291



December 31, 2016

	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 7)	Net
At January 1	₱2,121,315,611	₱764,432,324	₱1,356,883,287
New policies written during the year (Note 16)	4,904,238,679	2,693,547,597	2,210,691,082
Premiums earned during the year (Note 16)	(4,678,387,600)	(2,705,223,606)	(1,973,163,994)
At December 31	₱2,347,166,690	₱752,756,315	₱1,594,410,375

13. Insurance payables

This account consists of:

	2017	2016
Due to reinsurers	₱610,525,943	₱729,797,560
Funds held for reinsurers	169,174,319	83,067,747
	₱779,700,262	₱812,865,307

The funds held for reinsurers are interest-bearing, wherein the Company recognized an amount of ₱1,161,694 and ₱951,266 as "Interest expense" charged against the statements of comprehensive income in 2017 and 2016, respectively.

The rollforward analysis of this account follows:

	Due to Reinsurers	Funds Held for Reinsurers	Total
At January 1, 2016	₱270,503,261	₱91,313,952	₱361,817,213
Arising during the year	1,776,301,403	23,116,737	1,799,418,140
Utilized	(1,317,007,104)	(31,362,942)	(1,348,370,046)
At December 31, 2016	₱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

14. Accounts payable and accrued expenses

This account consists of:

	2017	2016
Accounts payable (Note 25)	₱852,217,013	₱305,494,867
Taxes payable	431,260,360	259,983,903
Commissions payable (Note 25)	370,432,147	252,696,979
Accrued expenses (Note 25)	179,049,469	96,014,900
	₱1,832,958,989	₱914,190,649



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, 2017. 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:

	2017		2016	
	Shares	Amount	Shares	Amount
Common stock - P100 par value				
Authorized:				
At beginning of the year	10,000,000	P1,000,000,000	10,000,000	P1,000,000,000
Increase	-	-	-	-
At end of the year	10,000,000	P1,000,000,000	10,000,000	P1,000,000,000
Issued and outstanding:				
At beginning of the year	5,125,000	P512,500,000	5,125,000	P512,500,000
Issuances during the year	-	-	-	-
At end of the year	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:

	2017	2016
Gross premiums on insurance contracts:		
Direct insurance	P5,445,500,915	P4,682,431,013
Assumed reinsurance	228,104,562	221,807,666
Total gross premiums on insurance contracts	5,673,605,477	4,904,238,679
Gross change in provision for unearned premiums	(402,621,685)	(225,851,079)
Total gross earned premiums on insurance contracts (Note 12)	5,270,983,792	4,678,387,600
(Forward)		



	2017	2016
Reinsurers' share of gross premiums on insurance contracts:		
Direct insurance	₱1,501,423,641	₱2,591,166,443
Assumed reinsurance	92,755,715	102,381,154
Total reinsurers' share of gross premiums on insurance contracts	1,594,179,356	2,693,547,597
Reinsurers' share of gross change in provision for unearned premiums	131,006,231	11,676,010
Total reinsurers' share of gross earned premiums on insurance contracts (Note 12)	1,725,185,587	2,705,223,606
Net insurance earned premiums	₱3,545,798,206	₱1,973,163,994

17. Interest, other underwriting, dividend and other income

Interest income consists of the following:

	2017	2016
AFS financial assets (Note 6)	₱118,348,848	₱80,845,179
Cash equivalents (Note 4)	19,954,820	18,159,996
Short-term investments (Note 4)	2,428,998	24,653
Unit investment trust funds	955,891	—
Cash in banks (Note 4)	384,377	392,326
Salary loans	153,327	162,987
Car loans	2,441	7,674
Security fund	—	11,042
	₱142,228,702	₱99,603,857

Other income - net consists of:

	2017	2016
Other underwriting income	₱31,004,890	₱28,991,611
Foreign exchange gain (loss):		
Unrealized	(7,793,871)	7,754,469
Realized	6,921	826,003
Gain (loss) sale of property and equipment	3,669,152	(101,618)
Others	2,238,045	147,496
	₱29,125,137	₱37,617,961

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 ₱4,403,542 and ₱5,137,164 in 2017 and 2016, respectively.



18. Net insurance benefits and claims

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

	2017	2016
Direct insurance	₱1,994,171,543	₱1,843,854,068
Assumed reinsurance	46,071,475	24,166,858
Total insurance contract benefits and claims paid (Note 12)	₱2,040,243,018	₱1,868,020,926

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

	2017	2016
Direct insurance	₱308,566,874	₱582,984,655
Assumed reinsurance	33,005,245	8,793,786
Total reinsurers' share of insurance contract benefits and claims paid (Note 12)	₱341,572,119	₱591,778,441

Gross change in insurance contract liabilities:

	2017	2016
Change in provision for claims reported	₱240,128,423	₱198,072,298
Change in provision for IBNR	152,951,885	(209,118,348)
Change in provision for IBNER	—	60,962,403
Total gross change in insurance contract liabilities (Note 12)	₱393,080,308	₱49,916,353

Reinsurers' share of gross change in insurance contract liabilities:

	2017	2016
Change in provision for claims reported	₱264,177,430	(₱139,719,854)
Change in provision for IBNR	(153,434,432)	(199,565,000)
Total reinsurers' share of gross change in insurance contract liabilities (Note 12)	₱110,742,998	(₱339,284,854)



19. Operating expenses

This account consists of:

	2017	2016
Salaries, allowances and employee benefits (Note 20)	₱430,824,869	₱333,706,610
Other underwriting expense (Note 8)	219,978,315	117,654,869
Provision for doubtful accounts (Notes 5, 6 and 12)	104,504,099	240,211,336
Outside services	98,462,716	136,006,340
Advertising and promotion	48,398,525	48,846,396
Depreciation and amortization of property and equipment (Note 9)	42,145,560	37,181,742
Communication and postage	21,889,839	19,278,050
Transportation and travel	21,143,410	19,236,401
Rent (Note 24)	19,948,630	22,048,905
Repairs and maintenance	14,712,933	8,343,690
Supplies	14,436,073	13,364,282
Taxes and licenses	9,665,371	3,522,656
Utilities	8,708,020	8,128,768
Representation and entertainment	6,516,727	8,479,420
Association and pool dues	3,286,509	3,257,541
Bad debts expense	909,737	—
Insurance	749,613	851,127
Loss on impairment of AFS financial assets (Note 6)	—	7,738,530
Loss on impairment of other assets (Note 11)	—	2,724,982
Amortization of computer software (Note 11)	—	5,705
Others	92,909,403	31,937,890
	₱1,159,190,349	₱1,062,525,240

20. Salaries, allowances and employee benefits

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

	2017	2016
Salaries and wages	₱229,867,965	₱180,264,970
Allowances and bonuses	97,982,973	46,558,408
Other employee benefits	59,045,876	64,714,199
Retirement expense (Note 21)	26,768,688	26,543,253
Director's fees and allowances	7,780,000	7,898,333
Social security costs	7,027,379	5,780,259
PhilHealth insurance contribution	1,761,888	1,456,688
Pag-ibig contribution	590,100	490,500
	₱430,824,869	₱333,706,610

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

	2017	2016
Current service cost	₱26,768,688	₱26,543,253
Net interest cost	6,304,691	6,500,983
Net benefit expense	₱33,073,379	₱33,044,236

Remeasurement losses on defined benefit obligation

	2017	2016
From Defined benefit obligation	₱69,300,025	(₱11,909,603)
From Plan assets	(5,551,987)	(4,264,393)
Total amount to be recognized in OCI	₱63,748,038	(₱16,173,996)

Net pension obligation

	2017	2016
From Benefit obligation	₱209,475,864	₱273,769,614
From Plan assets	(136,708,754)	(138,155,929)
Net pension obligation	₱72,767,110	₱135,613,685



Changes in the defined benefit obligation are as follows:

	2017	2016
Defined benefit obligation at January 1	₱273,769,614	₱251,044,991
Current service cost	26,768,688	26,543,253
Actuarial (gains) losses	(69,300,025)	11,909,603
Interest cost	13,723,419	12,487,358
Benefits paid from plan assets	(35,485,832)	(19,189,135)
Benefits paid from Company operating funds	—	(9,026,456)
Defined benefit obligation at December 31	₱209,475,864	₱273,769,614

Changes in fair value of plan assets are as follows:

	2017	2016
Fair value of plan assets at January 1	₱138,155,929	₱124,072,661
Interest income	7,418,728	5,986,375
Contributions	32,171,916	31,550,421
Actuarial losses	(5,551,987)	(4,264,393)
Benefits paid	(35,485,832)	(19,189,135)
Fair value of plan assets at December 31	₱136,708,754	₱138,155,929

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

	2017	2016
Discount rate	5.75%	5.34%
Salary increase rate	8.00%	10.00%
Mortality rate	2017 PICM	1994 GAM
	A scale ranging from	A scale ranging from
	13% at age 18 to 0% at age 55	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:

	2017	2016
Government securities	₱124,004,977	₱119,775,723
Deposit in banks	9,572,393	16,367,082
Receivables	1,951,585	1,967,337
Corporate bonds and debt instruments	1,031,588	5,165,726
Unit Investment Trust Funds (UITFs)	235,428	2,712,618
Total assets	136,795,971	145,988,486
Liabilities	(87,217)	(118,908)
Benefit payable from fund	—	(7,713,649)
Net assets	₱136,708,754	₱138,155,929

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



The rollforward analysis of remeasurement loss on retirement plan follows:

	2017	2016
At January 1	(P81,804,618)	(P70,482,821)
Recognized in OCI	63,748,038	(16,173,996)
Tax effect (Note 22)	(19,124,411)	4,852,199
At December 31	(P37,180,991)	(P81,804,618)

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:

2017

	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
Discount rate	+1.00%	(P17,185,090)
	-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

2016

	Change in variables	Impact on present value of defined benefit obligation Increase (Decrease)
Discount rate	+1.00%	(P22,887,230)
	-1.00%	26,535,717
Salary increase rate	+1.00%	26,691,533
	-1.00%	(23,545,403)
Turnover rate	+2.00%	(11,897,987)
	-2.00%	13,704,951

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:

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

2016

Plan Year	Expected Benefit		Total
	Normal Retirement	Payments Other than Normal Retirement	
Less than one year	₱28,621,148	₱4,932,377	₱33,553,525
More than one year to five years	65,043,708	23,558,728	88,602,436
More than five years to 10 years	86,397,797	40,130,830	126,528,627
More than 10 years to 15 years	150,155,960	53,787,612	203,943,572
More than 15 years to 20 years	347,698,481	46,789,156	394,487,637
More than 20 years	478,175,429	43,089,701	521,265,130

22. Income tax

Current Tax

The provision for current income tax consists of:

	2017	2016
Current	₱21,451,585	₱—
Final	26,857,437	19,590,801
	₱48,309,022	₱19,590,801



Deferred Tax

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

	2017	2016
Deferred tax assets:		
Provision for IBNR and ULAE	₱118,689,291	₱26,773,397
Allowance for doubtful accounts	101,711,350	87,050,723
Accrued expenses	69,414,730	—
Deferred reinsurance commissions	29,763,024	32,311,028
Retirement benefit obligation	21,830,134	40,684,106
Unamortized past service cost	6,639,596	6,334,962
Unrealized foreign exchange loss	2,338,161	—
Total deferred tax assets	350,386,286	193,154,216
Deferred tax liabilities:		
Deferred acquisition costs	148,225,605	108,383,239
Reserve for revaluation of property and equipment	34,498,472	36,727,277
Excess of provision for unearned premiums per books over tax basis	5,555,383	1,905,162
Reserve for fluctuation on AFS	496,746	14,107
PAS 17, Leases adjustment	92,858	28,019
Unrealized foreign exchange gain	—	2,326,341
Total deferred tax liabilities	188,869,064	149,384,145
	₱161,517,222	₱43,770,071

Movements in deferred tax that were recognized in OCI and profit or loss in 2017 and 2016 follows:

	2017	2016
Recognized in OCI (Notes 6, 9 and 21)	(₱19,607,050)	₱593,965
Recognized in profit or loss	137,354,200	(72,933,893)
	₱117,747,150	(₱72,339,928)

A reconciliation of the statutory income tax rate to effective income tax rate in 2017 and 2016 follows:

	2017	2016
Statutory income tax rate	30.00%	30.00%
Tax effects of:		
Interest income already subjected to (exempt from) final taxes	(68.12%)	0.90%
Gain on sale of AFS financial assets	(22.26%)	0.89%
Dividend income	(5.71%)	0.14%
Nondeductible expenses	81.64%	(0.23%)
MCIT	92.69%	—
Unrecognized deferred tax assets	(493.00%)	(26.81%)
Effective income tax rate	(384.76%)	4.89%



The Company has the following NOLCO and MCIT that is available for offset against future taxable income and future income tax payable for which no deferred tax asset has been recognized:

Year Incurred	NOLCO	MCIT	Expiry Year
2015	P-	P9,733,802	2018
2016	979,077,417	-	2019
	P979,077,417	P9,733,802	

The following are the movements in NOLCO:

	2017	2016
At beginning of year	P979,077,417	P-
Additions	-	979,077,417
Utilized	(380,322,180)	-
	P598,755,237	P979,077,417

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, 2017

Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
Philippine AXA Life Insurance corporation				
Direct Premiums	P1,082,274	P-	-	-
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%	-

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
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%	—
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	—	—	—

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
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
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	-	-

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
AXA Shared Services Centre Philippines Inc.				
Direct Premiums	₱4,010	₱—	—	—
Premiums Receivable	—	5,000	—	—
First Metro Securities Brokerage Corporation				
Brokerage Fees	842,236	—	—	—

December 31, 2016

Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
MBTC				
Cash in bank	₱—	₱114,539,680	On demand	Unsecured; no impairment
Cash equivalents	—	16,500,000	90 days, 1.375%	Unsecured; no impairment
AFS equity securities	—	25,332,080	Common shares	Unsecured; no impairment
Interest income	532,107	—	—	—
Dividend income	502,438	—	—	—
Metrobank Card Corporation (MCC)				
Interest income	1,429,894	—	—	—
Premiums Receivable	138,104,294	6,107,570	—	—
Commissions	2,575	96	—	—
FMIC				
AFS debt securities	—	19,826,382	5.25 to 7 years, 5.68% to 5.75%	Unsecured; no impairment
Interest income	1,142,500	—	—	—
Premiums Receivable	1,518,843	412,572	Due and demandable; non- interest bearing	Unsecured; no impairment
Commissions	3,087	9,110	—	—
PS Bank				
Cash in bank	—	10,042,174	On demand	Unsecured; no impairment
Cash equivalents	—	577,891,619	30 to 83 days, 1.25% to 1.75%	Unsecured; no impairment
AFS equity securities	—	6,362,076	Common shares	Unsecured; no impairment
AFS debt securities	—	22,032,855	10 years, 5.50% to 5.75%	Unsecured; no impairment
Interest income	6,284,132	—	—	—
Dividend income	224,982	—	—	—
Premiums Receivable	56,524,346	4,974,583	Due and demandable; non- interest bearing	Unsecured; no impairment
Commissions	41,386,942	27,405,999	—	—
Federal Land, Inc.				
Premiums Receivable	44,264,869	3,983,742	Due and demandable; non- interest bearing	—
Commissions	6,116,520	6,789,220	—	—

(Forward)



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
Metro Pacific Investments Corporation				
Premiums Receivable	₱1,843,604	₱404,311	Due and demandable; non-interest bearing	Unsecured; no impairment
ORIX Metro Leasing and Finance Corporation (ORIX METRO)				
Premiums Receivable	26,230,581	12,192,972	Due and demandable; non-interest bearing	Unsecured; no impairment
Commissions	—	35,978	—	—
ORIX Auto Leasing Phils. Corporation				
Premiums Receivable	7,662,814	2,314,922	Due and demandable; non-interest bearing	Unsecured; no impairment
ORIX Rental Corporation				
Premiums Receivable	52,263,698	14,341,061	Due and demandable; non-interest bearing	Unsecured; no impairment
Philippine AXA Life Insurance Corporation				
Premiums Receivable	1,174,655	507,652	Due and demandable; non-interest bearing	Unsecured; no impairment
Toyota Financial Services Philippines Corporation				
Premiums Receivable	91,084,475	55,917,108	Due and demandable; non-interest bearing	Unsecured; no impairment
Commissions	22,708	39,187	—	—
Toyota Manila Bay Corporation (TMBC)				
Premiums Receivable	3,346,257	803,585	Due and demandable; non-interest bearing	Unsecured; no impairment
Commissions	62,171,832	2,049,197	—	—
Toyota Motor Philippines Corporation (TMPC)				
Premiums Receivable	11,227,907	3,525,150	Due and demandable; non-interest bearing	Unsecured; no impairment
Commissions	38,742,902	1,883,027	—	—
Cathay International Resources Corporation (CIRC)				
Premiums Receivable	2,363,837	549,179	Due and demandable; non-interest bearing	Unsecured; no impairment
(Forward)				



Category	Volume/ Amount	Outstanding Balance	Terms	Conditions
Property Company of Friends, Inc.				
Premiums Receivable	₱1,723,299	₱1,119,711	Due and demandable; non- interest bearing	Unsecured; no impairment
Global Business Power Corporation (GBPC)				
Losses and claims payable	—	568,600	Due and demandable; non- interest bearing	—
Losses paid	1,373,116	—	—	—
GT Capital Holdings				
AFS debt securities	—	19,215,321	10 years, 5.10%	Unsecured; no impairment
Interest income	1,018,740	—	—	—
Dividend income	30,000	—	—	—
Key Management Personnel				
Salaries and wages	42,618,349	—	—	—
Directors' fees and allowance	3,815,000	—	—	—
Other employee benefits	18,846,440	—	—	—

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 2017 and 2016, rent expense amounted to ₱19,948,630 and ₱22,048,905, respectively, and is included under "Operating expenses" account in the statements of comprehensive income (see Note 19).

Minimum lease payments due:

	2017	2016
Within one (1) year	₱8,142,553	₱15,432,586
More than one (1) year but less than five (5) years	10,642,034	14,637,508
	₱18,784,587	₱30,070,094

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 networth 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, 2017, the Company's estimated statutory net worth amounted to ₱1,845,722,207 and the Company's net worth as of December 31, 2016 after verification of the Insurance Commission amounted to ₱1,204,613,774.

As of December 31, 2017 and 2016, 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, 2017 and 2016 was determined by the Company:

	2017	2016
Net worth	₱1,845,722,207	₱1,204,613,774
RBC requirement	1,227,384,416	1,377,343,170
RBC Ratio	150%	87%

The final 2017 RBC ratio can be determined only after the accounts of the Company have been examined by the IC. The 2016 RBC ratio was determined final during the examination made by the IC.

New regulatory framework

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

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

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

Circular Letter No. 2016-68, *Amended Risk-Based Capital (RBC2) Framework*, prescribes that all insurance companies must satisfy the minimum statutory RBC ratio of 100% and not fail the Trend Test as stated under Section 3 of this Circular. The RBC ratio of an insurance company shall be equal to the Total Available Capital (TAC) divided by the RBC requirement.

Implementation requirements and transition accounting

Circular Letter No. 2016-69, *Implementation Requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-based Capital Framework*. The new regulatory requirements under circular letters 2016-65, 2016-67, 2016-68 and 2016-69 shall take effect beginning January 1, 2017.

Circular Letter No. 2017-15, *Regulatory Requirements and Actions for the New Regulatory Framework*. The cumulative prior year impact of the changes arising from the adoption of the New



Financial Reporting Framework, including the revaluation of the reserves for Claims and Premiums Liabilities computed based on the new valuation standards for non-life insurance policy reserves as provided under CL No. 2016-67, shall be recognized in Retained Earnings – Transition Adjustments account except for items listed in Section 2.1. All changes in valuation shall be measured net of any tax effect.

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:

	2017			2016		
	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities	Gross Liabilities	Reinsurers' Share of Liabilities	Net Liabilities
Fire	₱1,992,638,935	₱1,385,520,134	₱607,118,801	₱1,849,392,606	₱942,896,190	₱906,496,416
Engineering	365,145,402	334,692,043	30,453,359	122,897,620	117,209,346	5,688,274
Bonds	293,698,428	205,638,071	88,060,357	366,957,206	340,711,451	26,245,755
Motorcar	698,797,833	6,191,000	692,606,833	430,009,940	8,155,391	421,854,549
Marine	465,433,217	398,589,856	66,843,361	383,237,126	356,861,176	26,375,950
Accident	122,986,045	56,824,830	66,161,215	20,831,347	3,692,211	17,139,136
Casualty	109,621,829	96,220,665	13,401,164	77,492,169	66,113,340	11,378,829
	₱4,048,321,689	₱2,483,676,599	₱1,564,645,090	₱3,250,818,014	₱1,835,639,105	₱1,415,178,909

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, 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)

December 31, 2016

	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	-31.89%	(P1,036,601,559)	(P451,263,853)	P451,263,853	P315,884,697
Average number of claims	43.21%	1,404,527,441	611,433,062	(611,433,062)	(428,003,143)

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 2017

Accident year	2008 and prior years									2010	2011	2012	2013	2014	2015	2016	2017	Total
Estimate of ultimate claims costs:																		
At the end of accident year	£3,741,669,478	£2,032,370,629	£807,390,670	£951,457,509	£1,350,928,683	£2,916,535,918	£1,505,626,897	£1,580,423,726	£2,277,169,052	£2,991,723,278	£2,991,723,278	£2,991,723,278	£2,991,723,278	£2,991,723,278	£2,991,723,278	£2,991,723,278	£2,991,723,278	£2,991,723,278
One year later	3,822,800,618	1,971,694,785	926,275,974	906,997,045	1,591,074,101	3,517,793,344	1,519,447,575	2,011,608,465	2,149,934,641	—	—	—	—	—	—	—	—	2,149,934,641
Two years later	3,290,499,201	1,982,805,590	937,239,388	804,256,204	1,607,010,823	3,424,674,448	1,503,621,679	1,810,542,848	—	—	—	—	—	—	—	—	—	1,810,542,848
Three years later	3,215,300,523	1,941,729,080	932,750,360	803,341,198	1,570,310,340	3,411,528,261	1,469,596,067	—	—	—	—	—	—	—	—	—	—	1,469,596,067
Four years later	3,225,166,227	2,391,452,591	934,368,007	808,979,325	1,556,756,249	3,379,355,067	—	—	—	—	—	—	—	—	—	—	—	3,379,355,067
Five years later	3,221,519,186	1,908,686,484	941,370,970	804,960,572	1,556,480,458	—	—	—	—	—	—	—	—	—	—	—	—	1,556,480,458
Six years later	3,227,783,963	1,895,421,937	943,425,728	800,787,734	—	—	—	—	—	—	—	—	—	—	—	—	—	800,787,734
Seven years later	3,225,791,430	1,849,682,736	772,912,136	—	—	—	—	—	—	—	—	—	—	—	—	—	—	772,912,136
Eight years later	3,227,023,602	1,860,440,982	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,860,440,982
Nine years later	3,344,319,916	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3,344,319,916
Current estimate of cumulative claims	3,344,319,916	1,860,440,982	772,912,136	800,787,734	1,556,480,458	3,379,355,067	1,469,596,067	1,810,542,848	2,149,934,641	2,991,723,278	20,136,093,127	—	—	—	—	—	—	20,136,093,127
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	803,397,897	16,087,771,436	—	—	—	—	—	—	16,087,771,436
Total gross insurance liabilities included in the statement of financial position (Note 12)																		
	£397,883,526	£509,198,502	£16,853,147	£4,581,143	£8,294,023	£28,496,975	£61,462,074	£228,556,905	£604,670,015	£2,188,325,381	£4,048,321,691	—	—	—	—	—	—	£4,048,321,691

Net general insurance contract liabilities for 2017

Accident year	2008 and prior years									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	£836,169,264	£872,987,009	£1,160,714,899	£1,586,538,079	£2,044,591,781	£2,044,591,781
One year later	1,315,470,247	511,793,713	468,518,851	526,407,111	584,502,648	857,373,474	892,389,638	1,296,034,661	1,586,720,317	-	1,586,720,317
Two years later	1,306,282,820	486,258,305	474,358,289	507,184,335	613,592,754	863,530,986	904,005,361	1,263,198,323	-	-	1,263,198,323
Three years later	1,288,215,398	490,205,137	471,007,437	506,686,659	589,714,611	878,635,298	888,769,386	-	-	-	888,769,386
Four years later	1,291,877,753	489,840,224	436,569,147	512,233,310	600,159,247	870,640,965	-	-	-	-	870,640,965
Five years later	1,290,486,062	472,967,589	438,148,692	512,961,712	601,643,802	-	-	-	-	-	601,643,802
Six years later	1,267,499,168	483,150,704	437,266,438	510,633,031	-	-	-	-	-	-	510,633,031
Seven years later	1,267,566,040	483,132,235	443,978,446	-	-	-	-	-	-	-	443,978,446
Eight years later	1,275,617,168	484,197,435	-	-	-	-	-	-	-	-	484,197,435
Nine years later	1,279,860,497	-	-	-	-	-	-	-	-	-	1,279,860,497
Current estimate of cumulative claims	1,279,860,497	484,197,435	443,978,446	510,633,031	601,643,802	870,640,965	888,769,386	1,263,198,323	1,586,720,317	2,044,591,779	9,974,233,971
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	1,227,395,827	1,405,025,555	737,850,981	8,409,589,628
Total net insurance liabilities included in the statement of financial position (Note 12)	£22,472,040	£1,053,193	£5,404,199	£3,842,765	£606,445	£1,619,957	£5,407,698	£35,802,495	£181,694,761	£1,306,740,798	£1,564,644,351

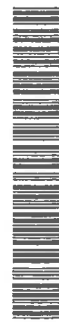


Gross general insurance contract liabilities for 2016

Accident year	2007 and prior years	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims costs:											
At the end of accident year	₦2,139,815,200	₦1,601,854,278	₦2,032,370,629	₦807,390,670	₦951,457,509	₦1,350,928,683	₦2,916,535,918	₦1,505,626,897	₦1,580,423,726	₦2,277,169,052	₦2,277,169,052
One year later	1,846,139,682	1,976,660,936	1,971,694,785	926,275,974	906,997,045	1,591,074,101	3,517,793,344	1,519,447,575	2,011,608,465	-	2,011,608,465
Two years later	1,889,350,885	1,401,148,317	1,982,805,590	937,239,388	804,256,204	1,607,010,823	3,424,674,448	1,503,621,679	-	-	1,503,621,679
Three years later	1,809,254,435	1,406,046,088	1,941,729,080	932,750,360	803,341,198	1,570,310,340	3,411,528,261	-	-	-	3,411,528,261
Four years later	1,804,378,429	1,420,787,798	2,391,452,591	934,368,007	808,979,325	1,556,756,249	-	-	-	-	1,556,756,249
Five years later	1,803,931,781	1,417,587,405	1,908,686,484	941,370,970	804,960,572	-	-	-	-	-	804,960,572
Six years later	1,811,789,306	1,415,994,657	1,895,421,937	943,425,728	-	-	-	-	-	-	943,425,728
Seven years later	1,808,639,243	1,417,152,188	1,849,682,736	-	-	-	-	-	-	-	1,849,682,736
Eight years later	1,809,493,131	1,417,525,061	-	-	-	-	-	-	-	-	1,417,525,061
Nine years later	1,906,041,932	-	-	-	-	-	-	-	-	-	1,906,041,932
Current estimate of cumulative claims	1,906,041,932	1,417,525,061	1,849,682,736	943,425,728	804,960,572	1,556,756,249	3,411,528,261	1,503,621,679	2,011,608,465	2,277,169,052	17,682,319,735
Cumulative payments to date	(1,794,999,353)	(1,144,731,065)	(1,347,398,174)	(741,592,012)	(795,090,145)	(1,529,100,562)	(3,337,502,242)	(1,398,695,530)	(1,397,693,786)	(560,725,201)	(14,047,528,070)
Total gross insurance liabilities included in the statement of financial position (Note 12)	₦111,042,579	₦272,793,996	₦502,284,562	₦201,833,716	₦9,870,427	₦27,655,687	₦74,026,019	₦104,926,149	₦613,914,679	₦1,716,443,851	₦3,634,791,665

Net general insurance contract liabilities for 2016

Accident year	2007 and prior years	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of ultimate claims costs:											
At the end of accident year	₦927,615,098	₦461,972,481	₦512,731,291	₦445,492,896	₦551,580,189	₦616,963,797	₦836,169,264	₦872,987,009	₦1,160,714,899	₦1,586,538,079	₦1,586,538,079
One year later	842,520,628	472,949,619	511,793,713	468,518,851	526,407,111	584,502,648	857,373,474	892,389,638	1,296,034,661	-	1,296,034,661
Two years later	838,374,782	467,908,039	486,258,305	474,358,289	507,184,335	613,592,754	863,530,986	904,005,361	-	-	904,005,361
Three years later	826,440,091	461,775,307	490,205,137	471,007,437	506,686,659	589,714,611	878,635,298	-	-	-	878,635,298
Four years later	828,138,515	463,739,238	489,840,224	436,569,147	512,233,310	600,159,247	-	-	-	-	600,159,247
Five years later	826,576,647	463,909,415	472,967,589	438,148,692	512,961,712	-	-	-	-	-	512,961,712
Six years later	834,632,494	432,866,674	483,150,704	437,266,438	-	-	-	-	-	-	437,266,438
Seven years later	833,885,599	433,680,441	483,132,235	-	-	-	-	-	-	-	483,132,235
Eight years later	834,025,459	434,220,814	-	-	-	-	-	-	-	-	434,220,814
Nine years later	859,971,053	-	-	-	-	-	-	-	-	-	859,971,053
Current estimate of cumulative claims	859,971,053	434,220,814	483,132,235	437,266,438	512,961,712	600,159,247	878,635,298	904,005,361	1,296,034,661	1,586,538,079	7,992,924,898
Cumulative payments to date	(821,538,155)	(433,977,015)	(482,367,051)	(436,141,222)	(506,017,246)	(582,020,090)	(864,629,058)	(880,782,776)	(1,171,986,102)	(531,460,014)	(6,710,918,729)
Total net insurance liabilities included in the statement of financial position (Note 12)	₦38,432,898	₦243,799	₦765,184	₦1,125,216	₦6,944,466	₦18,139,157	₦14,006,240	₦23,222,585	₦124,048,559	₦1,055,078,065	₦1,282,006,169



Financial Instruments

The table below presents the carrying amounts and fair values of the Company's non-derivative financial instruments as of December 31, 2017 and 2016.

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans and Receivables				
Cash and cash equivalents	₱1,262,840,629	₱1,262,840,629	₱1,507,028,832	₱1,507,028,832
Short-term investments	113,500,000	113,500,000	2,000,000	2,000,000
Insurance receivables - net	2,651,096,021	2,651,096,021	1,658,080,506	1,658,080,506
Loans and receivables:				
Accounts receivable - net	370,432,147	370,432,147	14,562,253	14,562,253
Accrued income	35,545,414	35,545,414	18,496,438	18,496,438
AFS Financial Assets				
Equity securities	222,239,187	222,239,187	141,298,842	141,298,842
Government debt	2,853,647,065	2,853,647,065	2,554,602,199	2,554,602,199
Private debt	599,699,811	599,699,811	425,323,092	425,323,092
Total Financial Assets	₱8,109,000,274	₱8,109,000,274	₱6,321,392,162	₱6,321,392,162
Other Financial Liabilities:				
Provision for claims reported by policyholders and IBNR	₱4,048,321,691	₱4,048,321,691	₱3,250,818,014	₱3,250,818,014
Insurance payables:				
Due to reinsurers	610,525,943	610,525,943	729,797,560	729,797,560
Funds held for reinsurers	169,174,319	169,174,319	83,067,747	83,067,747
Accounts payable and accrued expenses				
Accounts payable	852,217,013	852,217,013	305,494,867	305,494,867
Commissions payable	370,432,147	370,432,147	252,696,979	252,696,979
Accrued expenses	179,049,469	179,049,469	96,014,901	96,014,901
Total Other Financial Liabilities	₱6,229,720,582	₱6,229,720,582	₱4,717,890,068	₱4,717,890,068

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, 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:	January 30, 2018	-	-	153,645,510	153,645,510
Real estate properties		-	-	-	-
Total		₱3,676,529,413	₱-	₱153,645,510	₱3,830,174,923

December 31, 2016

	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	₱2,554,602,199	₱-	₱-	₱2,554,602,199
Private debt securities	December 31	162,371,489	262,951,603	-	425,323,092
Quoted equity securities:					
Common shares	December 31	43,487,192	-	-	43,487,192
Preferred shares	December 31	34,575,000	-	-	34,575,000
Club shares	December 31	63,180,000	-	-	63,180,000
Mutual fund		-	-	-	-
Property and equipment:	January 30, 2017	-	-	150,448,141	150,448,141
Real estate properties		-	-	-	-
Total		₱2,858,215,880	₱262,951,603	₱150,448,141	₱3,271,615,624

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, 2017 and 2016, the Company classifies AFS financial assets under Level 1 and 2 of the fair value hierarchy.

During the reporting period ended December 31, 2017 and 2016, 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:

	2017	2016
Cash and cash equivalents (excluding cash on hand)	₱1,262,330,637	₱1,506,543,861
Short-term investments	113,500,000	2,000,000
Insurance receivables	2,651,096,021	1,658,080,506
Financial assets:		
AFS financial assets		
Quoted equity securities	222,182,537	141,242,192
Unquoted equity securities	56,650	56,650
Quoted debt securities	3,453,346,876	2,979,925,291
Loans and receivables	55,940,744	33,058,691
	₱7,758,453,465	₱6,320,907,191

The Company does not hold any collateral held as security and other credit enhancements on its financial assets as of December 31, 2017 and 2016. Therefore, the Company's maximum exposure to credit risk is equal to the carrying amount of its financial assets as of December 31, 2017 and 2016.

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, 2017

	Neither Past Due nor Impaired		Past Due	Total
	Investment Grade	Satisfactory	or Impaired	
Cash and cash equivalents	₱1,021,329,145	₱1,021,329,145	₱—	₱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	—	—	34,575,000
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	20,395,330
Accrued income	35,137,070	408,344	—	35,545,414
Total	₱4,993,399,969	₱2,386,114,926	₱1,360,454,665	₱6,582,620,575



December 31, 2016

	Neither Past Due nor Impaired		Past Due or Impaired	Total
	Investment Grade	Satisfactory		
Cash and cash equivalents	₱1,119,230,544	₱387,313,317	₱—	₱1,506,543,861
Short-term investments	2,000,000	—	—	2,000,000
Insurance receivables:				
Premiums receivable and agents' balances	—	843,298,111	313,821,929	1,157,120,040
Reinsurance recoverable on paid losses	361,610,700	14,049,218	155,000,276	530,660,194
Due from ceding companies	—	36,208,870	40,414,827	76,623,697
Bonds recoverable on paid losses	—	—	29,951,572	29,951,572
Funds held by ceding companies	—	14,172,994	—	14,172,994
Financial assets:				
AFS financial assets:				
Quoted equity securities:				
Common shares	31,694,155	7,417	11,785,620	43,487,192
Preferred shares	34,575,000	—	—	34,575,000
Club shares	—	63,000,000	180,000	63,180,000
Unquoted equity securities:				
Common shares	—	35,124	—	35,124
Mutual fund	—	21,526	—	21,526
Government debt securities:				
Local currency	2,510,819,114	—	—	2,510,819,114
Foreign currency	43,783,085	—	—	43,783,085
Private debt securities	415,436,268	9,886,824	—	425,323,092
Loans and receivables:				
Accounts receivable	—	14,562,253	1,871,695	16,433,948
Accrued income	17,866,216	630,222	—	18,496,438
Total	₱4,537,015,082	₱1,383,185,876	₱553,025,919	₱6,473,226,877

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, 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	₱196,930,153	₱147,765,244	₱159,481,903	₱535,693,814	₱1,039,871,114	₱99,841,114	₱1,139,712,228
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	₱213,967,254	₱169,802,566	₱174,338,639	₱618,194,865	₱1,176,303,324	₱201,188,442	₱1,377,491,766



December 31, 2016

	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	P96,717,967	P62,920,768	P46,779,360	P82,295,118	P288,713,213	P25,108,716	P313,821,929
Reinsurance recoverable on paid losses	7,033,825	18,149,780	16,197,959	33,726,574	75,108,138	79,892,138	155,000,276
Due from ceding companies	1,619,902	1,075,654	10,717,520	8,655,976	22,069,052	18,345,775	40,414,827
Bonds recoverable on paid losses	-	-	-	2,850,210	2,850,210	27,101,362	29,951,572
AFS financial assets	-	-	-	-	-	7,738,530	7,738,530
Accounts receivable	-	-	-	-	-	1,871,695	1,871,695
Total	P105,371,694	P82,146,202	P73,694,839	P127,527,878	P388,740,613	P160,058,216	P548,798,829

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, 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	3,675,586,063
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	P10,726,541,489

(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		P4,048,321,691	P-	P-	P-	P4,048,321,691
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		P6,229,720,582	P-	P-	P-	P6,229,720,582

December 31, 2016

	No term	Up to a year	1 to 3 years	3 to 5 years	Over 5 years	Total
Cash and cash equivalents	P-	P1,507,028,832	P-	P-	P-	P1,507,028,832
Short-term investments	-	2,000,000	-	-	-	2,000,000
Insurance receivables	-	1,633,806,826	-	-	-	1,633,806,826
Financial assets:						
AFS financial assets	141,298,842	198,839,725	964,291,043	1,145,651,609	671,142,914	3,121,224,133
Loans and receivables	-	33,058,691	-	-	-	33,058,691
Reinsurance assets	-	2,578,253,068	-	-	-	2,578,253,068
Total financial assets	P141,298,842	P5,952,987,142	P964,291,043	P1,145,651,609	P671,142,914	P8,875,371,550
Provision for claims reported by policyholders and IBNR	P-	P3,634,791,666	P-	P-	P-	P3,634,791,666
Insurance payables	-	812,865,307	-	-	-	812,865,307
Accounts payable and accrued expenses:						
Accounts payable	-	305,494,867	-	-	-	305,494,867
Commissions payable	-	252,696,979	-	-	-	252,696,979
Accrued expenses	-	96,014,901	-	-	-	96,014,901
Total financial liabilities	P-	5,101,863,720	P-	P-	P-	P5,101,863,720

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, 2017 and 2016:

	2017		2016	
	US\$	PHP	US\$	PHP
Assets				
Cash and cash equivalents	\$2,053,704	₱102,541,445	\$948,968	₱47,182,688
AFS financial assets	885,029	44,189,508	1,177,418	58,541,235
Premiums receivable and agents' balances	5,800,022	289,595,090	3,414,902	169,788,932
	8,738,755	436,326,043	5,541,288	275,512,855
Liabilities				
Due to reinsurers	\$4,317,295	₱215,562,523	\$2,807,167	₱139,572,360
	4,317,295	215,562,523	2,807,167	139,572,360
Net exposure	\$4,421,460	₱220,763,520	\$2,734,121	₱135,940,495

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, 2017

	Change in variables	Impact on profit before tax Increase (decrease)
USD	4%	8,830,541
USD	-4%	(8,830,541)

December 31, 2016

	Change in variables	Impact on profit before tax Increase (decrease)
USD	+6%	₱8,156,430
USD	-6%	(8,156,430)

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:

	Interest Rates	Maturity				Total
		Within 1 year	1-3 years	3-5 years	Over 5 years	
AFS financial assets						
2017	2.13% - 8.13%	₱660,274,991	₱1,361,468,239	₱821,919,162	₱609,684,485	₱3,453,346,876
2016	2.13% - 8.13%	₱198,839,725	₱964,291,043	₱1,145,651,609	₱671,142,914	₱2,979,925,291

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, 2017

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

December 31, 2016

	Change in variables	Impact on equity
		Increase (decrease)
AFS Debt securities	+150 basis points	(₱131,095,292)
	-150 basis points	124,924,896

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, 2017

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

December 31, 2016

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

	Change in Variable	Impact on equity Increase (decrease)
PSEi	+5.00%	₱9,330,018
PSEi	-5.00%	(9,330,018)

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:

	2017	2016
PFRS net income (loss)	₱112,188,402	(₱1,070,647,035)
Difference in change in reserve for unearned premiums	(18,517,943)	(12,385,077)
Deferred acquisition costs – net	–	7,460,156
Statutory net income	₱93,670,459	(₱1,075,571,956)

27. 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.



28. 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 ₱523,745,948 for the year based on Vatable Sales/Receipts of ₱4,364,549,566.

The Company has zero-rated sales amounting to ₱90,331,653.

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

	2017
Balance at January 1	₱-
Current year's purchases/payments:	
Goods other than for resale	45,318,360
Services paid lodged under operating expenses	109,132,384
	154,450,744
Claims for tax credit/refund and other adjustments	(13,212,438)
Balance at December 31	₱141,238,306

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

Transaction	DST
Policy issuance	₱819,549,478,384 ₱624,872,705

- c. Other taxes paid are:

Transaction	Amount	Tax
Premium tax	₱542,846,050	₱10,856,921

- 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:

Local:

Business license	₱311,627
Real estate taxes	547,517
Communicate tax certificate	31,755
	890,899

National:

Motor vehicle registration fees	108,642
Registration fees	12,000
Miscellaneous	8,653,830
	8,774,472
Total	₱9,665,371



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

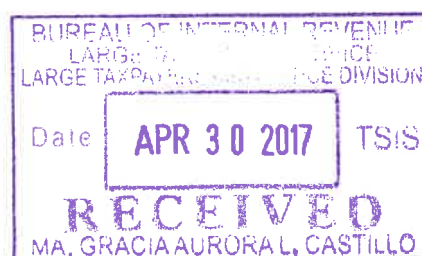
- e. The amount of withholding taxes paid/accrued for the year amounted to:

	2017
Expanded withholding taxes	₱96,138,926
Tax on compensation and benefits	61,764,709
Final withholding taxes	7,584,372
Fringe benefit tax	2,214,948
Final withholding VAT	1,974,378
Total	₱169,677,333

- f. The Company received Formal Letter of Demand (FLD) on October 26, 2017 for deficiency Income Tax (₱53,492,885), Value-Added Tax (₱43,157,824), Percentage Tax (₱172,330), Withholding Tax on Valued Added Tax (₱239,208), Final Withholding Tax (₱3,948,234), Expanded Withholding Tax (₱8,251,044), Withholding Tax on Compensation (₱5,723,319), Documentary Stamp Tax (₱13,919,101) and Miscellaneous Charges (₱278,000) inclusive of increments for taxable year ending December 31, 2013 pursuant to Letter of Authority No. 125-2014-00000117 dated September 8, 2014. In reference to the said FLD, the Company filed a protest letter on November 24, 2017.

In pursuant to Letter of Authority No. AUDR05/004142/2015, dated August 25, 2015, the Company received FLD for deficiency Income Tax (₱33,906,993), Value Added Tax (₱37,624,526), Percentage Tax (₱431,319), Expanded Withholding Tax (₱30,394,959), Withholding Tax on Compensation (₱15,339,041), Final Withholding Tax (₱499,556), Withholding Tax on Valued Added Tax (₱5,171,997), Documentary Stamp Tax (₱122,565,091), Annual Registration Fee (₱17,841) and Miscellaneous Charges (₱309,000) inclusive of increments for taxable year ending December 31, 2014. In reference to the 2014 FLD, the Company filed a protest letter on January 26, 2018.

- 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.



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
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, 2017 on which we have rendered the attached report dated February 28, 2018.

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.

Bernalette L. Ramos

Bernalette L. Ramos

Partner

CPA Certificate No. 0091096

SEC Accreditation No. 0926-AR-2 (Group A),

June 16, 2016, valid until June 16, 2019

Tax Identification No. 178-486-666

BIR Accreditation No. 08-001998-81-2015,

May 12, 2015, valid until May 11, 2018

PTR No. 6621314, January 9, 2018, Makati City

February 28, 2018



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders
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, 2017 and 2016 and have issued our report thereon dated February 28, 2018. 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, 2017 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.

Bernalette L. Ramos

Bernalette L. Ramos

Partner

CPA Certificate No. 0091096

SEC Accreditation No. 0926-AR-2 (Group A),

June 16, 2016, valid until June 16, 2019

Tax Identification No. 178-486-666

BIR Accreditation No. 08-001998-81-2015,

May 12, 2015, valid until May 11, 2018

PTR No. 6621314, January 9, 2018, Makati City

February 28, 2018



CHARTER PING AN INSURANCE CORPORATION
SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS
UNDER PHILIPPINE FINANCIAL REPORTING STANDARDS
DECEMBER 31, 2017

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, 2017:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted/ Not Early Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRS Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Meaning of Effective PFRS			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions*		✓	
PFRS 3 (Revised)	Business Combinations			✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts	✓		
	Amendments to PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4		✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted/ Not Early Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9			✓
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments			✓
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets*		✓	
	Financial Instruments: Classification and Measurement of Financial Liabilities*		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
	PFRS 9, Financial Instruments (Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39)		✓	
	PFRS 9, Financial Instruments (2014)		✓	
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	Deferred effectivity		
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted/ Not Early Adopted	Not Applicable
PFRS 12	Disclosures of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables			✓
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*		✓	
	Amendments to PFRS 15, Clarifications to PFRS 15*		✓	
PFRS 16	Leases*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1 (Revised): Disclosure Initiative		✓	
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Statement of Cash Flows, Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
	Amendment to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			✓
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16, Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted/ Not Early Adopted	Not Applicable
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓
	Amendments to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28 (Amended): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28 (Amended): Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets			✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted/ Not Early Adopted	Not Applicable
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendment to PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
	Amendments to PAS 39: Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Investment Property: Clarifying the relationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property			✓
	Amendments to PAS 40: Investment Property, Transfers of Investment Property*		✓	
PAS 41	Agriculture			✓
	Amendment to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	<i>Determining Whether an Arrangement Contains a Lease</i>			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 8	<i>Scope of PFRS 2</i>			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted/ Not Early Adopted	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			✓
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC-22	Foreign Currency Transactions and Advance Consideration		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
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, 2017

(Figures based on functional currency audited financial statements)

Unappropriated Retained Earnings, beginning	(P228,762,893)
Adjustment:	
Deferred tax assets in previous year's reconciliation	(244,086,473)
Unappropriated Retained Earnings, as adjusted, beginning	(472,849,366)
Net income based on the face of FS	112,188,402
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	(106,299,813)
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	5,200,547
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	11,089,136
Add (less):	
Dividend declarations during the year	—
Appropriations of Retained Earnings during the year	—
Reversal of appropriations	—
Effects of prior period adjustments	(76,812,194)
Treasury shares	—
TOTAL (DEFICIT), END AVAILABLE FOR DIVIDEND	(P538,572,424)

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

