

**Prudential Guarantee and
Assurance Inc.**

Financial Statements
December 31, 2018 and 2017

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Prudential Guarantee and Assurance, Inc.

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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



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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 32 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 Prudential Guarantee and Assurance, Inc. 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

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. 08-001998-81-2018,

March 14, 2018, valid until March 13, 2021

PTR No. 7332600, January 3, 2019, Makati City

April 29, 2019



PRUDENTIAL GUARANTEE AND ASSURANCE, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31		January 1
	2018	2017 (As restated - Note 31)	2017 (As restated - Note 31)
ASSETS			
Cash and cash equivalents (Notes 4 and 29)	₱4,472,247,883	₱3,598,744,114	₱3,665,723,691
Short-term investments (Notes 5 and 29)	283,658,842	435,288,241	478,448,252
Insurance receivables - net (Notes 6, 20 and 29)	2,972,437,958	2,267,953,655	1,229,868,032
Financial assets (Notes 7, 20, 29 and 30)			
Financial assets at fair value through profit or loss	672,844,430	474,341,864	376,588,504
Available-for-sale financial assets	577,011,677	548,318,436	250,814,645
Loans and receivables	31,243,150	170,932,356	18,123,768
Deferred acquisition costs (Note 8)	934,551,044	888,333,737	735,260,157
Reinsurance assets (Notes 9 and 13)	3,373,759,645	2,851,217,964	2,192,408,169
Investment properties (Notes 10 and 30)	593,607,630	509,247,546	447,712,917
Property and equipment - net (Notes 11 and 30)	833,682,915	698,897,347	627,115,381
Intangible assets - net (Note 11)	18,127,032	15,483,545	1,966,849
Other assets (Note 12)	514,963,100	595,363,401	373,991,118
	₱15,278,135,306	₱13,054,122,206	₱10,398,021,483
LIABILITIES AND EQUITY			
Liabilities			
Insurance contract liabilities (Notes 13, 21 and 24)	₱7,233,566,288	₱6,047,299,108	₱4,558,198,044
Insurance payables (Notes 14, 20 and 21)	2,747,135,200	2,542,943,008	1,797,538,471
Accounts payable and accrued expenses (Note 15)	2,388,163,244	2,304,385,970	2,023,039,774
Loans payable (Note 16)	-	-	10,000,000
Deferred reinsurance commissions (Note 8)	55,737,758	100,082,095	76,452,804
Net pension obligation (Note 17)	73,566,300	130,164,767	142,133,267
Deferred income tax liabilities - net (Note 26)	167,093,522	118,110,958	165,622,429
Other liabilities (Note 18)	664,126,244	269,775,613	238,902,546
	13,329,388,556	11,512,761,519	9,011,887,335
Equity (Note 19)			
Capital stock - ₱100 par value			
Authorized - 15,000,000 shares			
Issued and outstanding - 6,000,000 shares	600,000,000	600,000,000	300,000,000
Contributed surplus	23,691,470	23,691,470	23,691,470
Contingency surplus	139,066,267	139,066,267	139,066,267
Deposits for future stock subscription	-	-	300,000,000
Revaluation reserve on:			
Available-for-sale financial assets (Note 7)	72,206,687	46,767,477	31,661,372
Property and equipment (Note 11)	257,218,642	210,049,305	174,374,052
Remeasurement loss on defined benefit plan (Note 17)	(71,335,561)	(92,774,726)	(83,365,551)
Retained earnings	927,899,245	614,560,894	500,706,538
	1,948,746,750	1,541,360,687	1,386,134,148
	₱15,278,135,306	₱13,054,122,206	₱10,398,021,483

See Notes to the Financial Statements.



PRUDENTIAL GUARANTEE AND ASSURANCE, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2018	2017 (As restated - Note 31)
Gross premiums earned	₱9,155,318,014	₱8,130,093,907
Reinsurers' share of gross premiums earned	4,461,792,802	4,591,654,925
Net premiums earned (Note 21)	4,693,525,212	3,538,438,982
Commission income (Note 8)	190,384,671	159,523,647
Foreign currency exchange gains (losses) - net	83,580,975	-
Investment and other income - net (Note 22)	202,604,750	152,277,930
Other income (Note 23)	300,513,371	1,110,955,530
Other income	777,083,767	1,422,757,107
Total income	5,470,608,979	4,961,196,089
Gross insurance contract benefits and claims paid	2,768,731,063	2,825,261,865
Reinsurers' share of insurance contract benefits and claims paid	(894,881,669)	(1,375,892,112)
Gross change in insurance contract benefits and claims liabilities	513,181,329	684,601,232
Reinsurers' share of change in insurance contract benefits and claims liabilities	(380,123,908)	(781,653,548)
Net insurance contract benefits and claims (Note 24)	2,006,906,815	1,352,317,437
Commission expense (Note 8)	1,654,234,225	1,631,750,328
Other underwriting expenses	140,784,434	88,901,267
General expenses (Note 25)	1,270,320,135	1,514,293,057
Interest expense	7,315,260	78,723,974
Other expenses	3,072,654,054	3,313,668,626
Total insurance contract benefits, claims and other expenses	5,079,560,869	4,665,986,063
INCOME BEFORE INCOME TAX	391,048,110	295,210,026
PROVISION FOR INCOME TAX (Note 26)	(77,687,085)	(181,373,099)
NET INCOME	₱313,361,025	₱113,836,927

See Notes to the Financial Statements.



PRUDENTIAL GUARANTEE AND ASSURANCE, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017 (As restated - Note 31)
NET INCOME	₱313,361,025	₱113,836,927
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income that will be reclassified to profit or loss in subsequent periods:</i>		
Net changes in the revaluation reserve on available-for-sale financial assets (Note 7)	25,439,210	15,106,105
<i>Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement gain (loss) on defined benefit plan, net of tax (Note 17)	21,439,165	(9,409,175)
Change in revaluation reserve on property and equipment, net of tax effect (Note 11)	47,153,465	35,687,453
	94,031,840	41,384,383
TOTAL COMPREHENSIVE INCOME	₱407,392,865	₱155,221,310

See Notes to the Financial Statements.



PRUDENTIAL GUARANTEE AND ASSURANCE, INC.

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 19)	Contributed Surplus (Note 19)	Deposits for future stock subscription (Note 19)	Contingency Surplus (Note 19)	Revaluation Reserve on Available-for-sale Financial Assets (Note 7)	Revaluation Reserve on Property and Equipment (Note 11)	Remeasurement gain (loss) on Defined Benefit Plan (Note 17)	Retained Earnings	Total
As of January 1, 2018									
As previously reported	₱600,000,000	₱23,691,470	₱-	₱139,066,267	₱37,823,374	₱-	(₱92,774,726)	₱923,531,755	₱1,631,338,140
Changes in accounting policies and other adjustments (Note 31)	-	-	-	-	8,944,103	210,049,305	-	(308,970,861)	(89,977,453)
As restated	600,000,000	23,691,470	-	139,066,267	46,767,477	210,049,305	(92,774,726)	614,560,894	1,541,360,687
Net income for the year	-	-	-	-	-	-	-	313,361,025	313,361,025
Other comprehensive income for the year	-	-	-	-	25,439,210	47,153,465	21,439,165	-	94,031,840
Total comprehensive income for the year	-	-	-	-	25,439,210	47,153,465	21,439,165	313,361,025	407,392,865
Transfer from revaluation reserve on property and equipment to retained earnings	-	-	-	-	-	15,872	-	(22,674)	(6,802)
As of December 31, 2018	₱600,000,000	₱23,691,470	₱-	₱139,066,267	₱72,206,687	₱257,218,642	(₱71,335,561)	₱927,899,245	₱1,948,746,750
As of January 1, 2017									
As previously reported	₱300,000,000	₱23,691,470	₱300,000,000	₱139,066,267	₱31,661,372	₱-	(₱83,365,551)	₱663,754,544	₱1,374,808,102
Changes in accounting policies and other adjustments (Note 31)	-	-	-	-	-	174,374,052	-	(163,048,006)	11,326,046
As restated	300,000,000	23,691,470	300,000,000	₱139,066,267	31,661,372	174,374,052	(83,365,551)	500,706,538	1,386,134,148
Net income for the year	-	-	-	-	-	-	-	113,836,927	113,836,927
Other comprehensive income (loss) for the year	-	-	-	-	15,106,105	35,687,453	(9,409,175)	-	41,384,383
Total comprehensive income (loss) for the year	-	-	-	-	15,106,105	35,687,453	(9,409,175)	113,836,927	155,221,310
Transfer of revaluation surplus to retained earnings	-	-	-	-	-	(12,200)	-	17,429	5,229
Additional capital infusion during the year	300,000,000	-	(300,000,000)	-	-	-	-	-	-
As of December 31, 2017	₱600,000,000	₱23,691,470	₱-	₱139,066,267	₱46,767,477	₱210,049,305	(₱92,774,726)	₱614,560,894	₱1,541,360,687

See accompanying Notes to Financial Statements.



PRUDENTIAL GUARANTEE AND ASSURANCE, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017 (As restated - Note 31)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱391,048,110	₱295,210,026
Adjustments for:		
Depreciation and amortization (Notes 11 and 25)	51,929,903	40,114,413
Provisions for probable losses (Notes 15 and 25)	51,241,748	–
Pension benefit expense (Notes 17 and 25)	24,904,027	20,740,517
Write-off of receivables (Notes 6 and 25)	16,714,803	249,907,718
Interest expense	7,315,260	78,723,974
Impairment losses on:		
Other assets (Notes 12 and 25)	70,454,000	–
Available-for-sale financial assets (Notes 7 and 22)	28,928,098	4,696,000
Property and equipment (Notes 11 and 25)	18,479,183	31,310,038
Insurance receivables (Notes 6 and 25)	–	136,090,620
Recovery of accounts previously written-off (Note 23)	(133,211,780)	–
Fair value gains on revaluation of investment properties (Notes 10 and 22)	(83,742,251)	(61,534,629)
Foreign exchange losses (gains) - net	(83,580,975)	5,104,877
Interest income (Note 22)	(77,558,919)	(49,715,633)
Fair value gains on financial assets at fair value through profit or loss (Notes 7 and 22)	(36,301,326)	(5,587,403)
Rental income (Note 22)	(23,158,453)	(24,141,029)
Dividend income (Note 22)	(10,288,740)	(5,480,313)
Reversal of:		
Client deposits (Note 15 and 23)	(29,855,553)	(96,695,013)
Impairment of insurance receivables (Notes 6 and 23)	(23,845,443)	–
Provisions for probable losses (Note 23)	–	(453,092,364)
Impairment of creditable withholding taxes (Notes 12 and 23)	–	(277,831,973)
Commissions payable (Note 23)	–	(233,470,177)
Gain on sale of:		
Property and equipment (Notes 11 and 23)	(451,725)	(23,948)
Available-for-sale financial assets (Notes 7 and 22)	(483,159)	(10,514,923)
Operating income (loss) before working capital changes	158,536,808	(356,189,222)
Decrease (increase) in:		
Loans and receivables	171,796,604	(129,130,706)
Deferred acquisition costs	(46,217,307)	(153,073,580)
Other assets	9,946,300	56,459,691
Insurance receivables - net	(488,651,024)	(1,420,399,396)
Reinsurance assets	(522,541,681)	(658,809,795)
Increase (decrease) in:		
Insurance contract liabilities	1,186,267,181	1,489,101,063
Accounts payable and accrued expenses	62,391,079	993,029,079
Other liabilities	394,350,631	30,873,067

(Forward)



	Years Ended December 31	
	2018	2017 (As restated - Note 31)
Insurance payables	204,192,192	745,404,537
Deferred reinsurance commissions	(44,344,337)	23,629,291
Net cash generated from operations	₱1,085,726,446	₱620,894,029
Contribution to pension plan (Note 17)	(58,190,340)	(53,300,000)
Income taxes paid	(58,108,165)	(240,141,461)
Net cash flows provided by operating activities	969,427,941	327,452,568
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals and maturities of:		
Short-term investments (Note 5)	870,778,572	865,812,760
Financial assets at fair value through profit or loss (Note 7)	510,340,000	388,250,000
Available-for-sale financial assets (Note 7)	6,830,958	112,228,453
Property and equipment (Note 11)	941,769	98,600
Investment properties (Note 10)	122,380	-
Acquisitions of:		
Short-term investments (Note 5)	(711,059,092)	(831,442,189)
Financial assets at fair value through profit or loss (Note 7)	(672,541,240)	(480,415,957)
Property and equipment (Note 11)	(134,370,440)	(90,256,267)
Available-for-sale financial assets (Note 7)	(38,529,928)	(388,807,216)
Intangible assets (Note 11)	(6,595,652)	(15,559,422)
Investment properties (Note 10)	(740,213)	-
Interest received	68,609,974	49,843,038
Dividends received	10,288,740	5,816,055
Net cash flows used in investing activities	(95,924,172)	(384,432,145)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of loans payable (Note 16)	-	(10,000,000)
Net cash flows used in financing activities	-	(10,000,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	873,503,769	(66,979,577)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,598,744,114	3,665,723,691
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱4,472,247,883	₱3,598,744,114

See accompanying Notes to Financial Statements.



PRUDENTIAL GUARANTEE AND ASSURANCE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Prudential Guarantee and Assurance, Inc. (the Company) was incorporated in the Philippines to engage in the business and operation of all kinds of insurance on sea, land and air, of properties, goods and merchandise, transportation or conveyance, against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance. It has a certificate of authority issued by the Insurance Commission (IC) to transact in non-life insurance business until December 31, 2018.

The Company was registered with the Philippine Securities and Exchange Commission (SEC) on February 20, 1950. On March 8, 1999, it was approved by at least a majority of the Board of Directors (BOD) and the stockholders owning and representing at least two-thirds of the outstanding capital stock, that the Articles of Incorporation will be amended to extend the existence of the Company to another fifty years from its original expiry date. The SEC approved the Amended Articles of Incorporation on September 27, 1999.

The registered office address of the Company is Coyiuto House, 119 C. Palanca, Jr. Street, Legaspi Village, Makati City.

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

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets, investment properties, certain property and equipment which have been measured at fair value. The financial statements are measured in Philippine Peso (₱), which is also Company's functional currency. All values are rounded off to the nearest peso values, unless otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2017 is presented in these financial statements due to the retrospective adjustments as disclosed in Note 31.

Statement of Compliance

The accompanying 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 for the adoption of the following amendments and improvements to PFRS, which became effective on or after January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 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, measurement and impairment methodology for the Company's financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The new hedge accounting requirements will not have an impact to the Company as it currently does not enter into hedging transactions.

- 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. The amendments 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 in profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard becomes effective. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 from January 1, 2018 until the earlier of application of the forthcoming insurance contracts standard or 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.

In 2018 and 2017, the Company performed an assessment and reached the conclusion that based on the restated balances as of the December 31, 2015, its activities are predominantly connected with insurance. As permitted by the amendments to PFRS 4, the Company opted to apply the temporary exemption from PFRS 9 and therefore continues to apply PAS 39, *Financial Instruments: Recognition and Measurement* to its financial assets and financial liabilities until it applies the new insurance contract standard.



The assessment on whether a reporting entity's activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the Company's total liabilities reported on the statement of financial position at the annual reporting date after March 31, 2015 and before April 1, 2016. Applying the requirements using the statement of financial position as at December 31, 2015, the Company's gross liabilities arising from the contracts within the scope of PFRS 4 represented 93% of the total carrying amount of all its liabilities. Since December 31, 2015, there has been no change in the activities of the Company that requires reassessment of the use of the temporary exemption.

In addition to the above, the Amendments to PFRS 4 also introduced additional disclosures to enable users of financial statements to make comparison of entities that applied temporary exemption from adopting PFRS 9 with those that adopted PFRS 9 starting 2018 as follows:

Fair Value Disclosures

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

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

	SPPI financial assets		Other financial assets	
	Fair value	Fair value change	Fair value	Fair value change
Financial assets at FVPL:				
Debt securities -				
government securities	₱672,844,430	₱36,301,326	₱-	₱-
AFS financial assets:				
Common shares	-	-	500,434,962	29,205,604
Preferred shares	-	-	71,496,715	(4,228,235)
Club shares	-	-	5,080,000	945,000
Insurance receivables:				
Due from agents and brokers	2,174,896,124	-	-	-
Reinsurance recoverable on paid losses	696,675,811	-	-	-
Due from ceding companies	100,866,023	-	-	-
Loans and receivables:				
Cash and cash equivalents	4,472,247,883	-	-	-
Short-term investments	283,658,842	-	-	-
Employee receivables	11,922,246	-	-	-
Interest receivables	16,089,660	-	-	-
Mortgage loans receivable	540,641	-	-	-
Other receivables	2,690,603	-	-	-
	₱8,432,432,263	₱36,301,326	₱577,011,677	₱25,922,369



Credit Risk Disclosures

The following table shows the carrying amounts of the SPPI assets in accordance with PAS 39 categories by credit risk rating grades reported to key management personnel. The carrying amounts are measured in accordance with PAS 39. For assets measured at amortized cost, the carrying amount shown below is before any allowance for impairment losses.

	Total	High	Medium
Financial assets at FVPL:			
Debt securities - government securities	₱672,844,430	₱672,844,430	₱-
Insurance receivables:			
Due from agents and brokers	2,174,896,124	2,174,896,124	-
Reinsurance recoverable on paid losses	696,675,811	696,675,811	-
Due from ceding companies	100,866,023	100,866,023	-
Loans and receivables:			
Cash and cash equivalents*	4,471,667,052	4,471,667,052	-
Short-term investments	283,658,842	283,658,842	-
Employee receivables	11,922,246	11,922,246	-
Interest receivables	16,092,799	16,092,799	-
Mortgage loans receivable	540,641	540,641	-
Other receivables	2,687,464	2,687,464	-
	₱8,431,851,432	₱8,431,851,432	₱-

*excluding cash on hand

Financial assets, except insurance receivables, that have passed the SPPI test have low credit risk as of December 31, 2018

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18, Revenue and related interpretation. The standard establishes a new five-step model that will apply, with limited exceptions, to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in provide a more structured approach to measuring and recognizing revenue.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting for the incremental costs of obtaining a contact and the costs directly related to fulfilling a contract.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. The Company has already adopted PRFS 15 effective January 1, 2018 using a modified retrospective approach.

The adoption of PRFS 15 did not have significant impact on the Company's financial statements since its revenue streams are outside the scope of PFRS 15. These include insurance revenue, investment income (including gain on sale of AFS financial assets), commission income, fair value gains on revaluation of nonfinancial assets and foreign currency exchange gains.



- 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*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2019

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

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- 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 and plans to adopt the new standard on the required effective date.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- 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

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

Investment contracts

Investment Contracts mainly transfer financial risk but can also transfer insignificant 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.

Foreign Currency Transactions and Translations

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

Fair Value Measurement

The Company measures financial instruments, such as financial assets at FVPL and AFS financial assets, at fair value at each reporting date.

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

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

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

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



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 of 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 of input that is significant to the fair value measurement is directly or indirectly observable
- *Level 3* - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable

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

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

Cash and Cash Equivalents

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

Short-term Investments

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

Insurance Receivables

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

Insurance receivables are derecognized applying the derecognition criteria for financial assets.



Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As of December 31, 2018 and 2017, the Company's financial instruments include financial assets at FVPL, 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" profit or loss) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where an unobservable data is used, the difference between the transaction price and model value is only recognized in the statement of income 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.

Financial assets or financial liabilities at FVPL

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

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

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in the statement of income.



The Company's financial assets at FVPL as of December 31, 2018 and 2017 consist of treasury bills and notes denominated in Philippine Peso which are held for trading purposes. There are no financial liabilities at FVPL as of December 31, 2018 and 2017.

AFS financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM investments 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. For AFS debt securities, the effective yield component of it, as well as the impact of restatement on foreign currency-denominated debt securities, is reported in the statement of income. Interest earned on holding AFS financial assets are recorded as interest income in the statement of income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of income when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Revaluation reserve on available-for-sale financial assets" in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized as "Impairment losses on AFS financial assets" lodged under "Investment and other income - net". When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Where the Company holds more than one investment in the same security, the cost used is determined using the weighted average method.

When the fair value of an unquoted AFS equity securities cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value, these investments are carried at cost, less any allowance for impairment losses.

The Company's AFS financial assets as of December 31, 2018 and 2017 consist primarily of listed shares (common and preferred) in the Philippine Stock Exchange and country and club shares which were designated as AFS financial assets upon initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or AFS financial assets.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any 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 recorded as interest income in the statement of income. The loss arising from impairment of such loans and receivables are recognized in the statement of income. Any effects of restatement of foreign currency-denominated assets are recognized in the statement of income.

As of December 31, 2018 and 2017, the Company's loans and receivables consist of cash and cash equivalents, insurance receivables and loans and receivables.



HTM investments

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

As of December 31, 2018 and 2017, the Company has no HTM investments.

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 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 income.

As of December 31, 2018 and 2017, the Company's other financial liabilities consists of insurance payables, loans payable, accounts payable and accrued expenses and other liabilities that meet the above definition.

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.

Loans and receivables

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



collective assessment for impairment. 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.

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 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.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of income. 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 the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS financial assets

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

AFS financial assets 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.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Company assesses that it has a currently enforceable right to offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

De-recognition of Financial Assets and Liabilities

Financial assets

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

Financial liabilities

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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances recoverable from unpaid losses incurred by the Company with coverage 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 recoverable on paid losses are included as part of Insurance receivables - net.

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

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

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

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



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

Deferred Acquisition Costs (DAC)

Commission and other acquisition costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts are deferred and charged to expense in proportion to the premium revenue recognized. 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 the statement of income. The unamortized acquisition costs are shown in the assets section of the statement of financial position as “Deferred acquisition costs”. All other acquisition costs are recognized as incurred.

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

Investment Property

Investment property is measured initially at cost, including transaction costs. Investment property pertains to property that is held to earn rent income or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. Subsequent to initial recognition, investment properties are stated at fair values determined by an independent firm of appraisers. Gains or losses arising from changes in the fair values of investment properties are included in the Company statement of comprehensive income for the period in which they arise, including the corresponding tax effect.

Investment property being constructed is included under the investment property account until the time when the construction related activities necessary to prepare the investment property for the intended use are complete. Investment property being constructed is carried at cost when the fair value cannot be reliably determined.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation. Transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Investment properties are derecognized either when they have been disposed or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Company statement of income.

Property and Equipment

Property and equipment, except for land and buildings, 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 and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are charged to income in the period in which the costs are incurred. In situations where



it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation is calculated using the straight-line method over the estimated useful life of the corresponding asset. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful life. The estimated useful lives of items of property and equipment are as follows:

	Years
Office furniture, fixtures and equipment	5-10
Transportation equipment	5-10
Leasehold improvements	10
Building and building improvements	20

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation are credited to or charged against the current operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and impairment in value are removed from the accounts and any gain or loss resulting from their disposals is credited to or charged against the current operations.

Computer Software

Cost associated with the acquisition or maintaining computer software programs are recognized as expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Company, which will generate economic benefits beyond one (1) year, are recognized as intangible assets.

Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are capitalized and added to the original cost of the software. Computer software development costs are recognized as assets are carried at cost less accumulated amortization. The costs are amortized using the straight-line method over their estimated useful lives of five (5) years.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that property and equipment, investment property and computer software 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 groups 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.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the 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 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.

Creditable Withholding Taxes (CWTs)

Creditable withholding taxes pertain to the taxes paid by the Company withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost and included as part of "Other assets" in the statement of financial position.

CWTs may either be offset against income tax payable or be claimed as a refund from the taxation authorities at the option of the Company. If these CWTs are claimed as a refund, these will be recorded as a receivable under "Loans and receivables" in the statement of financial position.

At each end of the reporting period, an assessment for impairment is performed to assess the recoverability of the Company's CWTs.

Value-added Tax (VAT)

Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other assets" or "Accounts payable and accrued expenses" in the statement of financial position.

Insurance Contract Liabilities

Provision for unearned premiums

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

Provision for Claims Reported and Incurred But Not Reported (IBNR) Losses

Provision for claims reported and IBNR losses are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period, whether reported or not, 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 reporting date. The IBNR losses are 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.

Liability adequacy test

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

Net Pension Benefit Obligation

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

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

Defined benefit costs comprise the following:

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

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

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

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 the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of



plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Equity

Capital stock represents the value of shares that have been issued at par. Proceeds and or fair value of considerations received in excess of par value, if any, are recognized as part of "Contributed surplus". The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of the transaction and are deducted from "Contributed surplus".

Contingency surplus pertains to capital infusions of shareholders to cover any deficiency in the solvency requirements by the Philippine IC and can be withdrawn only upon approval of the same.

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

Revenue Recognition

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

Premium 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 inception date of the policy. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods.

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

Commission income

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date are accounted for as part of "Deferred reinsurance commissions" and presented in the statement of financial position.

Interest income

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



Dividend income

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

Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distribution to equity participants.

Benefits and claims

Gross benefits and claims consists of benefits and claims paid to policyholders, which include changes in the gross valuation of insurance contract liabilities, except for gross changes in the provision for unearned premiums which are recorded in gross premiums earned. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered and are offset against the related claims. Insurance claims are recorded on the basis of notification received.

Other underwriting expenses

Other underwriting expense pertains to the costs incurred by the Company prior to the issuance of policies to its policyholders. These costs include expenses for technical inspections, actuarial reviews and other work that is necessary to determine whether or not to accept the risks to be written. These costs are recognized as expense as they are incurred.

General expenses

General expenses are recognized in the statement of income as they are incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

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

Finance leases, which transfer substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. The Company has not entered into any finance lease in 2018 and 2017.



Rental income

Rental income is recognized on a straight-line basis over the term of the lease agreement.

Company as a Lessee

Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remains with the lessor. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Company as a Lessor

Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Income Tax

Current tax

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

Current income tax for current and prior periods, shall, to the extent unpaid, be recognized as a liability and is presented as "Income tax payable" in the statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as prepaid income tax included as part of "Other assets" in the statement of financial position.

Deferred income tax

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

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

Deferred income tax that relates to items that are recognized (a) in other comprehensive income shall be recognized in other comprehensive income and (b) directly in equity shall be recognized directly in equity account.

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

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Movements in the deferred income tax assets



and liabilities arising from changes in tax rates are credited to or charged against income or loss for the period.

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

Provisions

Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. 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 the statement of income, 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.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the statement of income.

Events After the End of the Reporting Date

Post year-end events that provide additional information about the Company's position at the end of the reporting date (adjusting events) are reflected in the Company's financial statements. Post year-end events that are not adjusting events are disclosed in the notes to 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 judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

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



Judgments

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

Classification of financial assets

The Company classifies a financial instrument depending on the purpose for which the financial instrument was acquired or originated. Management determines the classification of its financial instrument at initial recognition and, where allowed and appropriate, re-evaluates this classification at the end of each reporting date.

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

The classification of the Company's financial instruments by categories are presented under Notes 7 and 29.

Classification of leases

Company as lessor

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are entered.

The Company has entered into commercial property leases on the buildings which are classified as operating leases. The Company has determined that it retains all significant risks and rewards of ownership of its buildings. The total rental income amounted to ₱23.16 million and ₱24.14 million in 2018 and 2017, respectively (see Notes 20, 22 and 28).

Company as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. The Company considers, among others, the significance of the lease term as compared to the remaining useful life of the leased assets in determining the significant risks and rewards of ownership. Operating lease payments are recognized as an expense in consolidated statements of income on a straight-line basis over the lease term.

The Company has entered into commercial property leases with various lessors which are classified as operating leases. The Company has determined that the lessors retain all significant risks and rewards of ownership of the leased properties. The rental expense amounted to ₱78.50 million and ₱75.72 million in 2018 and 2017, respectively (see Notes 20, 25 and 28).

Distinction between property and equipment and investment property

The Company determines whether a property qualifies as property and equipment or investment property. In making its judgment, the Company considers whether the property is held for use in the supply of services, or is held for capital appreciation, and to earn rentals, in which case the property shall be classified as property and equipment or investment property, respectively, as the case may be. The Company considers each property separately in making its judgment.



Where a single property is partly held for use in the supply of services and partly for capital appreciation or rentals, and that the property cannot be separately sold or leased out under a finance lease, the property is considered by management as investment property only if an insignificant portion is held for use in the supply of services.

As of December 31, 2018 and 2017, the carrying value of property and equipment amounted to ₱833.68 million and ₱698.90 million, respectively (see Note 11), while the carrying value of investment properties amounted to ₱593.61 million and ₱509.25 million, respectively (see Note 10).

Estimates

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

Valuation of insurance contract liabilities

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 IBNR provision of the Company has been calculated using standard actuarial projection techniques using past development patterns to determine the expected future development and project the claim amounts for each accident year to its ultimate value. A number of different valuation methodologies have been adopted, each with their own strengths and blended them together which include: (a) paid chain ladder method (with and without Bornhuetter-Ferguson (BF) adjustments); (b) reported chain ladder method (with and without BF adjustments); and (c) expected loss ratio method. At each reporting date, prior year claims estimates are reassessed for adequacy and changes made are charged to provision.

The main assumption underlying the estimation of the claims provision is that a Company's past claims development experience can be used to project future claims development and hence ultimate claim costs. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

The carrying value of claims reported and IBNR amounted to ₱3,698.77 million and ₱3,185.59 million as of December 31, 2018 and 2017, respectively (see Note 13).

Impairment of AFS equity financial assets

The Company determines that AFS equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than twelve months for equity securities. In addition, the Company evaluates among other factors, the normal volatility in share price for quoted securities, and the future cash flows and the discount factors for unquoted securities. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating and financing cash flows.



As of December 31, 2018 and 2017, the carrying value of the Company's AFS equity financial assets amounted to ₱577.01 million and ₱548.32 million, respectively. Impairment losses recognized amounted to ₱28.93 million and ₱4.70 million in 2018 and 2017, respectively (see Note 7).

Estimation of allowance for impairment losses on receivables

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

The carrying values of insurance receivables amounted to ₱2,972.44 million and ₱2,267.95 million as of December 31, 2018 and 2017, respectively. The allowance for impairment losses on insurance receivables amounted to ₱161.17 million and ₱185.02 million in 2018 and 2017, respectively (see Note 6).

As of December 31, 2018 and 2017, the carrying values of loans and receivables amounted to ₱31.24 million and ₱170.93 million, respectively. No allowance for impairment losses on loans and receivables has been provided in 2018 and 2017 (see Note 7).

Estimation of useful lives of property and equipment and computer software

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

As of December 31, 2018 and 2017, the carrying value of property and equipment amounted to ₱833.68 million and ₱698.90 million, respectively (see Note 11), while the carrying value of computer software amounted to ₱18.12 million and ₱15.48 million, respectively (see Note 11).

Evaluation of impairment of property and equipment, and computer software

The Company assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the 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 assets; and
- significant negative industry or economic trends.

As of December 31, 2018 and 2017, the Company recognized impairment losses amounting to ₱18.48 million and ₱31.31 million, respectively, on its building classified as property and equipment.

Estimation of pension obligation

The determination of pension obligation and cost of pension is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates.



Due to the long-term nature of this plan, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date. In accordance with PAS 19, actual results that differ from the Company's assumptions are recognized immediately in other comprehensive income in the period in which they arise. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligations. See Note 17 for the related balances.

4. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	₱580,831	₱389,800
Cash in banks	2,795,047,063	2,386,129,295
Cash equivalents	1,676,619,989	1,212,225,019
	₱4,472,247,883	₱3,598,744,114

Cash in banks earns annual interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company, and earns annual interest at the prevailing short-term deposit rates. Interest income earned on cash and cash equivalents in 2018 and 2017 amounted to ₱60.48 million and ₱41.41 million, respectively (see Note 22). Interest accrued on cash and cash equivalents amounted to ₱7.60 million and ₱4.01 million as of December 31, 2018 and 2017, respectively (see Note 7).

5. Short-term Investments

The rollforward analysis of this account follows:

	2018	2017
At January 1	₱435,288,241	₱478,448,252
Acquisitions	711,059,092	831,442,188
Maturities	(870,778,572)	(865,812,760)
Foreign exchange gains (losses)	8,090,081	(8,789,439)
At December 31	₱283,658,842	₱435,288,241

Short-term investments consist of time deposits with maturities of more than three (3) months but less than one (1) year from dates of placement. The annual interest at the prevailing short-term deposit rates range from 1.10% to 4.00% in 2018 and 0.85% to 2.25% in 2017. Interest income earned in 2018 and 2017 amounted to ₱5.66 million and ₱2.87 million, respectively (see Note 22). Accrued interest income amounted to ₱5.62 million and ₱1.45 million as of December 31, 2018 and 2017, respectively (see Note 7).



6. Insurance Receivables - net

This account consists of:

	2018	2017 (As restated - Note 31)
Due from agents and brokers	₱2,300,923,251	₱1,871,397,121
Reinsurance recoverable on paid losses	731,818,316	534,182,818
Due from ceding companies	100,866,023	47,388,791
	3,133,607,590	2,452,968,730
Less: Allowance for impairment losses	161,169,632	185,015,075
	₱2,972,437,958	₱2,267,953,655

The tables below summarize the aging analysis of insurance receivables.

2018

	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	Allowance for impairment losses	Total
Due from brokers and agents	₱626,062,044	₱316,443,418	₱268,318,469	₱320,887,252	₱633,658,008	₱135,554,060	(₱126,027,127)	₱2,174,896,124
Reinsurance recoverable on paid losses	114,486,012	9,546,307	41,717,851	13,566,841	104,036,708	448,464,597	(35,142,505)	696,675,811
Due from ceding companies	11,091,993	15,096,513	2,974,826	6,422,453	52,057,246	13,222,992	-	100,866,023
	₱751,640,049	₱341,086,238	₱313,011,146	₱340,876,546	₱789,751,962	₱597,241,649	(₱161,169,632)	₱2,972,437,958

2017

	1 to 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 360 days	Over 360 days	Allowance for impairment losses	Total
Due from brokers and agents	₱381,082,386	₱429,172,783	₱302,360,107	₱195,759,013	₱376,484,625	₱186,538,208	(₱126,027,127)	₱1,745,369,995
Reinsurance recoverable on paid losses	173,889,871	28,838,882	41,235,110	62,286,024	105,900,776	122,032,155	(58,987,948)	475,194,870
Due from ceding companies	2,440,713	2,228,798	3,671,384	3,134,877	18,179,489	17,733,529	-	47,388,790
	₱557,412,970	₱460,240,463	₱347,266,601	₱261,179,914	₱500,564,890	₱326,303,892	(₱185,015,075)	₱2,267,953,655

As of December 31, 2018 and 2017, the rollforward of allowance for impairment losses follows:

	2018	2017
At January 1	₱185,015,075	₱48,924,455
Provisions (Note 25)	-	136,090,620
Reversal (Note 23)	(23,845,443)	-
At December 31	₱161,169,632	₱185,015,075

As of December 31, 2018 and 2017, the allowance for impairment losses was determined by management based on specific identification of impaired accounts which were fully provided with allowances.

The Company directly wrote-off receivables amounting to ₱16.71 million and ₱249.91 million in 2018 and 2017, respectively, as management believes that these receivables are no longer recoverable (see Note 25).



7. Financial Assets

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

	2018	2017 (As restated - Note 31)
Financial assets at FVPL	P672,844,430	P474,341,864
AFS financial assets	577,011,677	548,318,436
Loans and receivables	31,243,150	170,932,356
	P1,281,099,257	P1,193,592,656

a. Financial Assets at FVPL

Financial assets at FVPL consist of treasury bills and notes denominated in Philippine Peso, which are held for trading purposes.

The movements in the carrying values of financial assets at FVPL as of December 31, 2018 and 2017 follow:

	2018	2017
At January 1	P474,341,864	P376,588,504
Acquisitions	672,541,240	480,415,957
Disposals/maturities	(510,340,000)	(388,250,000)
Fair value gains (Note 22)	36,301,326	5,587,403
At December 31	P672,844,430	P474,341,864

Financial assets at FVPL earned annual interest ranging from 3.88% to 7.15% and 2.13% to 5.59% in 2018 and 2017, respectively. Interest income amounted to P11.36 million and P4.32 million in 2018 and 2017, respectively (see Note 22). Accrued interest income amounted to P2.87 million and P1.17 million (see loans and receivables - net section below) in 2018 and 2017, respectively.

b. AFS Financial Assets

This account consists of:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Quoted equity securities - at fair value				
Common shares	P430,911,985	P500,434,962	P443,925,459	P484,725,991
Preferred shares	72,790,005	71,496,715	56,522,500	59,457,445
Club shares	1,103,000	5,080,000	1,103,000	4,135,000
	P504,804,990	P577,011,677	P501,550,959	P548,318,436

Quoted equity securities include common and preferred shares listed in the Philippine Stock Exchange.

Dividend income earned amounted to P10.29 million and P5.48 million in 2018 and in 2017, respectively (see Note 22).



The movements in the carrying values of AFS financial assets as of December 31 follow:

	2018	2017 (As restated - Note 31)
At January 1	₱548,318,436	₱250,814,645
Acquisitions	38,529,928	388,807,216
Disposals	(6,830,958)	(112,228,453)
Fair value gains recognized in other comprehensive income	25,922,369	25,621,028
Impairment losses (Note 22)	(28,928,098)	(4,696,000)
At December 31	₱577,011,677	₱548,318,436

The movements in revaluation reserve on AFS financial assets as of December 31 follow:

	2018	2017
At January 1	₱46,767,477	₱31,661,372
Fair value gains (losses) recognized in other comprehensive income	25,922,369	25,621,028
Transferred to profit or loss (Note 22)	(483,159)	(10,514,923)
At December 31	₱72,206,687	₱46,767,477

c. Loans and receivables - net

This account consists of:

	2018	2017
Employee receivables	₱11,922,246	₱10,061,373
Interest receivables from:		
Cash equivalents (Note 4)	7,601,582	4,014,972
Short-term investments (Note 5)	5,615,333	1,451,368
Financial assets at FVPL	2,872,745	1,167,439
Other investments	-	506,937
Mortgage loans receivable	540,641	909,091
Other receivables	2,690,603	782,781
Other investments	-	152,038,395
	₱31,243,150	₱170,932,356

Employee receivables pertain to loans extended to regular employees by the Company. These are collected through deduction from the employees' salaries.

Interest receivables consist of accrued interest income from bonds, special savings account and short-term investments.

Mortgage loans receivable pertain to car loans granted to regular employees of the Company.

Other receivables refer to recoverable medical expenses from health and accident insurance.



Other investments consist of time deposits with maturities of more than one (1) year. Interest income earned amounted to nil and ₱1.00 million in 2018 and 2017, respectively (see Note 22). Accrued interest income amounted to nil and ₱.51 million in 2018 and 2017, respectively (see table above).

8. Deferred Acquisition Costs and Deferred Reinsurance Commissions

a. The movements in deferred acquisition costs as of December 31 follow:

	2018	2017 (As restated - Note 31)
At January 1	₱888,333,737	₱735,260,157
Cost deferred during the year	1,700,451,532	1,784,823,908
Amortization during the year	(1,654,234,225)	(1,631,750,328)
At December 31	₱934,551,044	₱883,333,737

b. The movements in deferred reinsurance commissions as of December 31 follow:

	2018	2017 (As restated - Note 31)
At January 1	₱100,082,095	₱76,452,804
Income deferred during the year	146,040,334	183,152,938
Amortization during the year	(190,384,671)	(159,523,647)
At December 31	₱55,737,758	₱100,082,095

9. Reinsurance Assets

This account consists of:

	2018	2017 (As restated - Note 31)
Reinsurance recoverable on unpaid losses (Note 13)	₱2,240,856,819	₱1,860,732,912
Deferred reinsurance premiums (Note 13)	1,132,902,826	990,485,052
	₱3,373,759,645	₱2,851,217,964

10. Investment Properties

December 31, 2018

	Land	Building	Total
At beginning of year, as restated	₱461,742,006	₱47,505,540	₱509,247,546
Additions	-	740,213	740,213
Disposals	(122,380)	-	(122,380)
Fair value gain (loss) during the year (Note 22)	84,812,464	(1,070,213)	83,742,251
Net Book Value	₱546,432,090	₱47,175,540	₱593,607,630



December 31, 2017 (as restated - Note 31)

	Land	Building	Total
At beginning of year, as restated	₱399,088,317	₱48,624,600	₱447,712,917
Fair value gain (loss) during the year (Note 22)	62,653,689	(1,119,060)	61,534,629
Net Book Value	₱461,742,006	₱47,505,540	₱509,247,546

The investment properties pertain to land and buildings located in Mandaluyong City and Bacolod City which are leased out to other parties, parcels of land located in Ternate, Cavite and Daraga, Albay acquired through foreclosure which are held for capital appreciation, and land and buildings with mixed use located in Mandaluyong City and Bacolod City which are being leased out to other parties.

In 2018, the Company changed its accounting policy for investment properties from cost model to fair value model. The change in accounting policy was accounted for retrospectively and the prior year financial statements were restated accordingly to reflect this change (see Note 31).

The fair values of the investment properties as of December 31, 2018 and 2017 and January 1, 2017 are based on valuations performed by Cuervo Appraisers, Inc. (CAI), an independent appraiser accredited by the IC and is a specialist in valuing these types of investment properties.

The fair values of the buildings, representing their highest and best use, were arrived at by using the cost approach, whereas the land properties were estimated using the sales comparison approach. The cost approach is a comparative approach to the value of property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction cost (new) or replacement cost (new) of the subject property or asset, less total (accrued) depreciation, plus the value of the land to which an estimate of entrepreneurial incentive or developer's profit / loss is commonly added. The sales comparison approach is a comparative approach to value that considers the sales of similar or substitute properties and related market date and establishes a value estimate by processes involving comparison.

The Company classifies the fair value its investment properties under Level 3 in the fair value hierarchy (see Note 30).

The comparison of the acquisition cost and fair value of each investment property is as follows:

	2018			2017		
	Land	Buildings	Total	Land	Buildings	Total
Acquisition costs	₱181,494,033	₱25,520,807	₱207,014,840	₱181,616,414	₱26,429,235	₱208,045,649
Fair value gains	364,938,057	21,654,733	386,592,790	280,125,592	21,076,305	301,201,897
At December 31	₱546,432,090	₱47,175,540	₱593,607,630	₱461,742,006	₱47,505,540	₱509,247,546



11. Property and Equipment and Intangibles - net

The rollforward analyses of this account follow:

December 31, 2018

	Land	Buildings and Building Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost / revalued amount						
At January 1	₱363,159,576	₱239,505,627	₱182,132,559	₱9,295,294	₱119,530,644	₱913,623,700
Additions	-	19,211,960	82,874,545	-	32,283,935	134,370,440
Transfer from accumulated depreciation	-	(1,287,315)	-	-	-	(1,287,315)
Revaluation adjustment	68,528,736	(1,166,643)	-	-	-	67,362,093
Disposal/Retirement	-	-	(31,925)	(972,571)	-	(1,004,496)
At December 31	431,688,312	256,263,629	264,975,179	8,322,723	151,814,579	1,113,064,422
Accumulated depreciation and impairment						
At January 1	-	67,503,167	101,632,466	7,091,745	38,498,975	214,726,353
Depreciation (Note 25)	-	493,134	34,390,481	361,789	12,732,334	47,977,738
Impairment (Note 25)	-	18,479,183	-	-	-	18,479,183
Transfer to gross carrying amount	-	(1,287,315)	-	-	-	(1,287,315)
Disposal/Retirement	-	-	(28,166)	(486,286)	-	(514,452)
At December 31	-	85,188,169	135,994,781	6,967,248	51,231,309	279,381,507
Net Book Value	₱431,688,312	₱171,075,460	₱128,980,398	₱1,355,475	₱100,583,270	₱833,682,915

December 31, 2017

	Land (As restated)	Buildings (As restated)	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost / revalued amount						
At January 1	₱312,529,464	₱215,489,364	₱149,647,330	₱9,363,298	₱92,771,080	₱779,800,536
Additions	-	30,873,538	32,584,445	-	26,798,284	90,256,267
Transfer from accumulated depreciation	-	(7,209,239)	-	-	-	(7,209,239)
Revaluation adjustment	50,630,112	351,964	-	-	-	50,982,076
Disposals	-	-	(99,216)	(68,004)	(38,720)	(205,940)
At December 31	363,159,576	239,505,627	182,132,559	9,295,294	119,530,644	913,623,700
Accumulated Depreciation and Impairment						
At January 1	-	42,335,964	75,724,754	6,659,512	27,964,925	152,685,155
Depreciation (Note 25)	-	1,066,404	25,966,037	500,236	10,539,010	38,071,687
Impairment (Note 25)	-	31,310,038	-	-	-	31,310,038
Transfer to gross carrying amount	-	(7,209,239)	-	-	-	(7,209,239)
Disposal	-	-	(58,325)	(68,003)	(4,960)	(131,288)
At December 31	-	67,503,167	101,632,466	7,091,745	38,498,975	214,726,353
Net Book Value	₱363,159,576	₱172,002,460	₱80,500,093	₱2,203,549	₱81,031,669	₱698,897,347

In 2018, management determined that the land and buildings constitute a separate class of property and equipment and changed the accounting policy for these classes of property and equipment from cost model to revaluation model. The change in accounting policy was accounted for retrospectively and the prior year financial statements were restated accordingly to reflect this change (see Note 31).

As at the revaluation dates on December 31, 2018, December 31, 2017 and January 1, 2017, the properties' fair values, representing their highest and best use, are based on valuations performed by CAI, an independent appraiser accredited by the IC and is a specialist in valuing these types of properties.



The fair values of the buildings were arrived at by using the cost approach, whereas the land properties were estimated using the sales comparison approach. The cost approach is a comparative approach to the value of property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction cost (new) or replacement cost (new) of the subject property or asset, less total (accrued) depreciation, plus the value of the land to which an estimate of entrepreneurial incentive or developer's profit / loss is commonly added. The sales comparison approach is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.

The amounts transferred from revaluation reserves to retained earnings are ₱.02 million and ₱.01 million in 2018 and 2017, respectively.

The Company classifies the fair value of its property and equipment under Level 3 in the fair value hierarchy, (see Note 30).

If the land and buildings were accounted for using the cost model, the carrying amounts as of December 31, 2018 and 2017 would be as follow:

	2018			2017		
	Land	Buildings	Total	Land	Buildings	Total
Acquisition costs	₱75,214,775	₱320,304,608	₱395,519,383	₱75,214,775	₱301,345,915	₱376,560,690
Accumulated depreciation	—	(78,075,433)	(78,075,433)	—	(73,663,804)	(73,663,804)
Net carrying amount	₱75,214,775	₱242,229,175	₱317,443,950	₱75,214,775	₱227,682,111	₱302,896,886

The cost of fully depreciated property and equipment still used in operations amounted to ₱23.67 million and ₱14.38 million as of December 31, 2018 and 2017, respectively.

The Company's intangible asset pertains to its computer software. The rollforward analyses follows:

	2018	2017
Cost		
At January 1	₱20,828,901	₱5,269,479
Additions	6,595,652	15,559,422
At December 31	27,424,553	20,828,901
Accumulated Amortization		
At January 1	5,345,356	3,302,630
Amortization (Note 25)	3,952,165	2,042,726
At December 31	9,297,521	5,345,356
Net Book Value	₱18,127,032	₱15,483,545



12. Other Assets

This account consists of:

	2018	2017
Creditable withholding taxes	P 321,522,623	P256,288,454
Documentary stamps inventory	184,189,422	-
Deferred input VAT	79,203,676	62,633,433
Input VAT	26,560,908	304,518,623
Refundable deposits	26,560,504	26,291,602
Prepayments	5,611,460	5,040,712
Claims fund	2,791,099	2,791,099
Security fund	104,494	104,494
Others	1,177,930	-
	647,722,116	657,668,417
Less allowance for impairment	132,759,016	62,305,016
	P514,963,100	P595,363,401

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

Documentary stamps inventory pertained to unused documentary stamp purchased from the Bureau of Internal Revenue (BIR). This is affixed to documents, instruments, loan agreements and paper evidencing the acceptance, assignment, sale or transfer of an obligation, rights or property.

Deferred input VAT pertains to inputs on uncollected receivable from various brokers, agents and suppliers.

Input VAT pertains to unclaimed inputs from various brokers, agents and suppliers as of December 31, 2018 and 2017.

Refundable deposits pertain to deposits paid by the Company in relation to its lease of office space which are refundable at the end of the lease contract.

Prepayments pertain to cash paid in advance by the Company in relation to its rental, advertising and other agreements with third parties.

Claims fund pertain to deposits paid by the Company to various brokers intended as advance payment of claims and any remaining balance may be refunded once brokers' contracts end up.

Security fund pertains to investment/placement deposited to the IC.

Based on management's assessment, the Company's creditable withholding taxes amounting to P132.80 million and P62.31 million as of December 31, 2018 and 2017, respectively, were considered impaired. The rollforward analyses of allowance for impairment losses follow:

	2018	2017
At January 1	P 62,305,016	P340,136,989
Provisions (Note 25)	70,454,000	-
Reversals (Note 23)	-	(277,831,973)
At December 31	P132,759,016	P62,305,016



13. Insurance Contract Liabilities

Insurance contract liabilities may be analyzed as follows:

	2018			2017 (As restated – Note 31)		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
Provision for claims reported and loss adjustment expenses	₱3,309,768,296	₱1,979,276,583	₱1,330,491,713	₱2,912,092,317	₱1,630,161,844	₱1,281,930,473
Provision for claims IBNR	389,005,215	261,580,236	127,424,979	273,499,865	230,571,068	42,928,797
Total claims reported and IBNR	3,698,773,511	2,240,856,819	1,457,916,692	3,185,592,182	1,860,732,912	1,324,859,270
Provision for unearned premiums	3,534,792,777	1,132,902,826	2,401,889,951	2,861,706,926	990,485,052	1,871,221,874
	₱7,233,566,288	₱3,373,759,645	₱3,859,806,643	₱6,047,299,108	₱2,851,217,964	₱3,196,081,144

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

	2018			2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
At January 1	₱3,185,592,182	₱1,860,732,912	₱1,324,859,270	₱2,500,990,950	₱1,079,079,364	₱1,421,911,586
Claims incurred during the year	3,166,407,042	1,243,996,408	1,922,410,634	3,501,823,903	1,908,459,540	1,593,364,363
Claims paid during the year - net of salvage and subrogation (Note 24)	(2,768,731,063)	(894,881,669)	(1,873,849,394)	(2,825,261,865)	(1,375,892,112)	(1,449,369,753)
Increase (decrease) in IBNR (Note 24)	115,505,350	(31,009,168)	84,496,182	8,039,194	(249,086,120)	241,046,926
At December 31	₱3,698,773,511	₱2,240,856,819	₱1,457,916,692	₱3,185,592,182	₱1,860,732,912	₱1,324,859,270

Provision for unearned premiums may be analyzed as follows:

	2018			2017		
	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net	Insurance Contract Liabilities	Reinsurers' Share of Liabilities (Note 9)	Net
At January 1	₱2,861,706,926	₱990,485,052	₱1,871,221,874	₱2,057,207,093	₱1,113,328,807	₱943,878,286
New policies written during the year (Note 21)	9,828,403,865	4,604,210,576	5,224,193,289	8,934,593,740	4,468,811,170	4,465,782,570
Premiums earned during the year (Note 21)	(9,155,318,014)	(4,461,792,802)	(4,693,525,212)	(8,130,093,907)	(4,591,654,925)	(3,538,438,982)
At December 31	₱3,534,792,777	₱1,132,902,826	₱2,401,889,951	₱2,861,706,926	₱990,485,052	₱1,871,221,874

14. Insurance Payables

The roll forward analysis of this account follows:

	2018	2017
At January 1	₱2,542,943,008	₱1,797,538,471
Additions (Note 21)	4,604,210,576	4,468,811,170
Payments	(4,400,018,384)	(3,723,406,633)
At December 31	₱2,747,135,200	₱2,542,943,008



15. Accounts Payable and Accrued Expenses

This account consists of:

	2018	2017 (As restated - Note 31)
Provisions	₱1,130,613,975	₱1,079,372,227
Commissions payable	322,823,728	307,468,891
Deferred output VAT	275,405,692	148,798,595
Accounts payable	270,861,215	474,808,410
Documentary stamp taxes payable	184,189,422	6,377,369
Payable to government agencies	167,954,562	235,155,097
Accrued expenses	36,314,650	52,405,381
	₱2,388,163,244	₱2,304,385,970

In 2018 and 2017, the Company recognized provisions for estimated losses amounting to ₱1,130.61 million and ₱1,079.37 million. The information usually required by PAS 37, Provisions, Contingent Liabilities and Contingent Assets is not disclosed because it can be expected to prejudice the Company's position. The rollforward analysis of provisions for estimated losses follows:

	2018	2017
At January 1	₱1,079,372,227	₱1,532,464,591
Additional provisions (Note 25)	51,241,748	-
Reversals (Note 23)	-	(453,092,364)
At December 31	₱1,130,613,975	₱1,079,372,227

Documentary stamp taxes payable pertains to the excise taxes imposed on certain rights embodied in a document evidencing such rights which are due to the Bureau of Internal Revenue (BIR).

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

Deferred output VAT is the calculated value-added-tax (VAT) amount that is not due until the invoice is paid.

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.

Payable to government agencies include taxes withheld from staff and agents, fringe benefits taxes, local government tax, fire service tax, premium tax, output vat and documentary stamp tax.

Accrued expenses are expected to be settled within twelve (12) months after the end of the reporting period.



16. Loans Payable

The movement in loans payable in 2017 follow:

	2017
At January 1	₱10,000,000
Payments	(10,000,000)
At December 31	₱-

This account represents unsecured short-term and secured long-term loans obtained from banks with annual interest rates ranging from 2.75% to 6.50% in 2017. Interest expense on loans amounted to ₱0.13 million in 2017.

17. Net Pension Obligation

The Company has a funded, non-trusted and non-contributory defined benefit retirement plan covering all of its employees.

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.

Net pension obligation as of December 31 follows:

	2018	2017
Present value of pension benefit obligation	₱333,852,958	₱330,895,889
Fair value of plan assets	260,286,658	200,731,122
	₱73,566,300	₱130,164,767

Net pension benefit expense for the years ended December 31 consists of the following:

	2018	2017
Current service cost (Note 25)	₱24,904,027	₱20,740,517
Net interest cost (Note 25)	7,315,260	7,149,303
	₱32,219,287	₱27,889,820

Re-measurement loss (gain) on defined benefit plan recognized in other comprehensive income for the years ended December 31 are as follow:

	2018	2017
Re-measurement loss (gain) arising from:		
Experience adjustments	(₱17,026,005)	₱19,193,603
Changes in financial assumptions	(17,966,290)	(10,445,727)
	(34,992,295)	8,747,876
Return on assets, excluding amount included in net interest cost	4,364,917	4,693,802
	(₱30,627,378)	₱13,441,678



Details of accumulated re-measurement loss on defined benefit plan as of December 31 follow:

	2018	2017
At January 1	₱132,535,322	₱119,093,644
Re-measurement loss recognized in other comprehensive income during the year	(30,627,378)	13,441,678
	101,907,944	132,535,322
Tax effect (Note 26)	(30,572,383)	(39,760,596)
At December 31	₱71,335,561	₱92,774,726

The reconciliation of the present value of defined benefit obligation as of December 31 follows:

	2018	2017
At January 1	₱330,895,889	₱306,414,454
Current service cost	24,904,027	20,740,517
Interest cost	18,596,349	15,412,647
Benefits paid	(5,551,012)	(20,419,604)
Actuarial losses on obligation	(34,992,295)	8,747,875
At December 31	₱333,852,958	₱330,895,889

The movements in the fair value of the plan assets as of December 31 follow:

	2018	2017
At January 1	₱200,731,122	₱164,281,187
Interest income	11,281,089	8,263,344
Return on assets (excluding amount included in net interest cost)	(4,364,881)	(4,693,805)
Contributions	58,190,340	53,300,000
Benefits paid	(5,551,012)	(20,419,604)
At December 31	₱260,286,658	₱200,731,122

The actual return on plan assets amounted to ₱6.92 million and ₱3.57 million in 2018 and 2017, respectively. The Company expects to contribute ₱34.07 million to its defined benefit plan in 2019.

The distribution of plan assets as of December 31 follows:

	2018	2017
Cash on hand and in banks	₱250,989,776	₱196,455,515
Investment in commercial bills	292,950	292,950
Receivables	9,003,932	3,982,657
	₱260,286,658	₱200,731,122

The carrying value of the retirement plan assets approximates its fair value as of December 31, 2018 and 2017. The plan assets are diverse investments and do not have any concentration risk.



The Company does not currently employ any asset-liability matching strategy.

The pension benefit expense and the present value of the defined benefit obligation are determined using actuarial valuations. The latest actuarial valuation report is as of December 31, 2018. The actuarial valuation involves making various assumptions.

The principal actuarial assumptions used to determine pension benefits are as follows:

	2018	2017
Discount rate	7.27%	5.62%
Salary increase rate	5.00%	5.00%

The Company's discount rate for the defined benefit obligation was determined by reference to market yields at the reporting date of high quality corporate bonds or government bonds consistent with the estimated term of the obligations. A lower discount rate would increase the present value of benefit obligations. The expected salary increase rate was determined by considering the inflation, seniority, promotion and other factors. The Company evaluates these assumptions on a periodic basis taking into consideration current market conditions and historical market data.

The Company performed sensitivity analysis for the changes in the significant assumptions that would increase the defined benefit obligation. The sensitivity analysis has been determined based on reasonably possible changes in the following assumptions occurring at the end of the reporting date assuming all other assumptions were held constant.

	Increase (decrease)	Increase (decrease) in defined benefit obligation	
		2018	2017
Discount rate	0.50%	(₱3,662,119)	(₱7,135,499)
	(0.50%)	4,503,928	8,641,293
Salary rate increase	1.00%	9,364,084	18,951,682
	(1.00%)	(6,666,704)	(12,995,992)

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

	2018	2017
Less than 1 year	₱139,971,862	₱144,844,278
More than 1 year to 5 years	80,985,543	76,393,589
More than 5 years to 10 years	164,010,355	126,874,145
More than 10 years to 15 years	214,818,260	208,745,134
More than 15 years to 20 years	174,237,353	219,211,590
More than 20 years	883,008,252	828,948,582
	₱1,657,031,625	₱1,605,017,318

The weighted average duration of the defined benefit obligation is 17 years as of December 31, 2018 and 16 years as of December 31, 2017.



18. Other Liabilities

This account consists of:

	2018	2017
Customers' deposits	₱640,136,216	₱226,705,742
Others	23,990,028	43,069,871
	₱664,126,244	₱269,775,613

Customers' deposits pertain to security deposits from policyholders holding bond insurance policies.

Others pertain to checks as payment to various expenses which were unreleased as of year-end as well as clients' deposits. In 2018 and 2017, management decided to recognize client's deposits as miscellaneous income for payments received in 2014 and prior years.

19. Equity

a. Capital Stock

As of December 31, 2018 and 2017, capital stock consists of 6.00 million, issued and outstanding common shares, with par value of ₱100.00 per share. Total capital stock amounts to ₱600.00 million as of December 31, 2018 and 2017.

b. Contributed Surplus

This represents the original contribution of the shareholders of the Company in addition to the paid-up capital stock, in order to comply with the pre-licensing requirement under the Insurance Code. Contributed surplus amounted to ₱23.70 million as of December 31, 2018 and 2017.

c. Contingency Surplus

This represents contributions of the shareholders in order to comply with capital requirements of the Insurance Code. This can be withdrawn only upon approval of the IC. As of December 31 2018 and 2017, the Company's contingency surplus amounted to ₱139.07 million.

20. Related Party Transactions

Transactions between related parties are based on terms similar to those offered to non-related parties. Parties are 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 and the parties are subject to common control or common significant influence. Related parties may be individual or corporate entities. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form. The settlement terms are on cash basis.



The Company has the following transactions with related parties:

Related party	Year	Premiums	Rental income	Service income	Claims and benefits	Insurance expenses	General expenses
PGA Sampo Insurance Corp. (PGA Sampo)	2018 2017	₱453,799 390,009	₱8,158,943 8,022,595	₱3,930,996 2,182,535	₱7,157,125 13,252,986	₱2,228,460 1,727,398	₱- -
First Life Financial Inc. (First Life)	2018 2017	147,136 2,227,828	261,725 55,100	- -	- -	2,324,667 133,211	- -
PGA Cars Inc (PGACars).	2018 2017	5,701,763 7,532,131	4,800,000 4,800,000	- -	1,825,019 -	- -	- -
National Grid Corporation	2018 2017	48,548,825 47,487,744	- -	- -	860,479 2,683,319	- -	- -
R. Coyiuto Securities Inc. (RCSI)	2018 2017	44,081 41,515	- -	- -	- -	- -	552,398 -
Other Entity with Common Director	2018 2017	119,032,234 73,504,184	- -	- -	97,048,793 17,971,912	- -	269,686 11,936,160
Total	2018	₱173,927,838	₱13,220,668	₱3,930,996	₱106,891,416	₱4,553,127	₱822,084
Total	2017	₱131,183,411	₱12,877,695	₱2,182,535	₱33,908,217	₱1,860,609	₱11,936,160

The Company has the following account balances with related parties:

Related party	Terms and Condition	Year	AFS financial assets (Note 7)	Due from ceding companies (Note 6)	Reinsurance recoverable on paid losses (Note 6)	Due to reinsurers (Note 14)
PGA Sampo.	(i)	2018 2017	₱- -	₱28,961,335 25,600,659	₱344,241,397 176,074,938	₱349,724,525 257,171,944
Oriental Petroleum and Mineral Corporation		2018 2017	166,070,772 160,099,630	- -	- -	- -
Total		2018	₱166,070,772	₱28,961,335	₱344,241,397	₱349,724,525
Total		2017	₱160,099,630	₱25,600,659	₱176,074,938	₱257,171,944

(i) Unsecured, with 90-day credit term and are not impaired.

- a. Premiums, claims and benefits, and related insurance expenses pertain to insurance contracts entered with, policies assumed by or policies ceded out to, the Company's related parties.
- b. The Company, as a lessor, leases its office spaces as follows:
 - In June 2016, the Company renewed its sublease agreement with PGA Sampo for the lease of its office space in Makati until May 2019. Rental income from PGA Sampo amounted to ₱8.16 million and ₱8.02 million in 2018 and 2017, respectively.
 - In January 2018, the Company entered into a sublease agreement with PGA Cars for the lease of its office and parking spaces in Greenhills until December 2023. Rental income from PGA Cars amounted to ₱4.80 million in 2018.

In June 2018, the entered into a lease agreement with First Life for the lease of office space in Bacolod until June 2021. Rental income from First Life amounted to ₱0.05 million and ₱0.19 million in 2018 and 2017, respectively.



- c. In January 2016, the Company, as a lessee, entered into a lease agreement with GDC covering mainly office spaces for its head office in Makati. The lease is for six (6) years until December 2021 and are not subject to escalation. Total rental charged against operations amounted to ₱11.94 million in 2018 and in 2017.

The Company also purchases various services from its related parties including transportation, travel and advertising expense.

- d. The compensation and benefits paid to the Company's key management personnel follows:

	2018	2017
Salaries and wages	₱180,615,238	₱172,196,521
Other short-term benefits	3,005,624	493,053
	₱183,620,862	₱172,689,574

21. Net Premiums Earned

Net premiums earned consist of the following:

	2018	2017 (As restated - Note 31)
Gross premiums on insurance contracts:		
Direct	₱9,053,836,464	₱8,095,556,833
Assumed	774,567,401	839,036,907
Total gross premiums on insurance contracts (Note 13)	9,828,403,865	8,934,593,740
Gross change in provision for unearned premiums (Note 13)	(673,085,851)	(804,499,833)
Total gross premiums earned on insurance contracts	9,155,318,014	8,130,093,907
Reinsurers' share of gross premiums on insurance contracts (Note 13):		
Direct	3,988,147,486	3,879,070,184
Assumed	616,063,090	589,740,986
Total reinsurers' share of gross premiums on insurance contracts (Notes 13 and 14)	4,604,210,576	4,468,811,170
Reinsurers' share of gross change in provision for unearned premiums (Note 13)	(142,417,774)	122,843,755
Total reinsurers' share of gross premiums earned on insurance contracts	4,461,792,802	4,591,654,925
Net premiums earned	₱4,693,525,212	₱3,538,438,982



22. Investment and Other Income - net

This account consists of:

	2018	2017
Fair value gain on revaluation of investment properties (Note 10)	₱83,742,251	₱61,534,629
Interest income from:		
Cash and cash equivalents (Note 4)	60,482,977	41,409,202
Financial assets at FVPL (Note 7)	11,360,330	4,320,972
Short-term investments (Note 5)	5,661,849	2,872,891
Other investments (Note 7)	-	1,003,450
Loans and receivables (Note 7)	53,763	109,118
Fair value gains on financial assets at FVPL (Note 7)	36,301,326	5,587,403
Rental income (Notes 20 and 28)	23,158,453	24,141,029
Dividend income (Note 7)	10,288,740	5,480,313
Gain on sale of AFS financial assets (Note 7)	483,159	10,514,923
Impairment losses on AFS financial assets (Note 7)	(28,928,098)	(4,696,000)
	₱202,604,750	₱152,277,930

23. Other Income

This account consists of:

	2018	2017
Recovery of accounts previously written-off	₱133,211,780	₱-
Other underwriting income	108,742,306	47,659,519
Reversals of:		
Client deposits	29,855,553	96,695,013
Allowance for impairment losses of insurance receivables (Note 6)	23,845,443	-
Allowance for probable losses	-	453,092,364
Allowance for impairment losses on creditable withholding taxes (Note 12)	-	277,831,973
Commissions payable	-	233,470,177
Service income (Note 20)	4,406,564	2,182,536
Gain on sale of property and equipment	451,725	23,948
	₱300,513,371	₱1,110,955,530



24. Net Insurance Contract Benefits and Claims

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

	2018	2017 (As restated - Note 31)
Insurance contract benefits and claims paid (Note 13)		
Direct	P2,723,917,904	P2,772,875,882
Assumed	44,813,159	52,385,983
	P2,768,731,063	P2,825,261,865

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

	2018	2017
Reinsurers' share of insurance contract benefits and claims paid (Note 13):		
Direct	P927,518,135	P1,367,888,844
Assumed	(32,636,466)	8,003,268
	P894,881,669	P1,375,892,112

Gross change in insurance contract benefits and claims liabilities follow:

	2018	2017
Change in provision for claims reported and loss adjustment expenses (Note 13)		
Direct	P465,435,596	P676,562,038
Assumed	(67,759,617)	-
Change in provision for claims IBNR (Note 13)	115,505,350	8,039,194
	P513,181,329	P684,601,232

Reinsurers' share of change in insurance contract benefits and claims liabilities follow:

	2018	2017
Reinsurers' share of change in insurance provision for claims reported and loss adjustment expenses (Note 13):	P349,114,739	P532,567,428
Reinsurer's share of change in provision for claims IBNR	31,009,168	249,086,120
	P380,123,908	P781,653,548



25. General Expenses

This account consists of:

	2018	2017 (As restated- Note 31)
Salaries, wages and benefits (Note 20)	₱559,885,826	₱537,192,215
Service fees	106,024,811	109,995,043
Communications, light and water	91,840,712	81,852,080
Rent (Notes 20 and 28)	78,498,406	75,719,057
Provision for impairments losses on creditable withholding taxes (Note 12)	70,454,000	-
Entertainment, amusement and recreation	55,942,178	84,027,525
Depreciation and amortization (Note 11)	51,929,903	40,114,413
Provision for probable losses (Note 15)	51,241,748	-
Stationery and supplies	37,563,821	35,859,177
Transportation (Note 20)	32,930,663	26,055,601
Pension benefit expense (Note 17)	24,904,027	20,740,517
Advertising (Note 20)	20,777,433	8,598,917
Repairs and maintenance	19,300,149	14,810,825
Impairment losses on property and equipment (Note 11)	18,479,183	31,310,038
Professional fees	16,815,755	12,131,361
Write-off of receivables (Note 6)	16,714,803	249,907,718
Taxes and licenses (Note 32)	10,154,292	8,869,942
Club dues and membership	3,465,169	3,343,289
Insurance	1,334,339	4,869,506
Donations to charitable institutions	100,500	25,250,000
Provision for impairment losses of insurance receivables (Note 6)	-	136,090,620
Foreign exchange losses	-	5,104,877
Others	1,962,417	2,450,336
	₱1,270,320,135	₱1,514,293,057

Other underwriting expense pertains to costs incurred when deciding whether to accept or decline a risk, meetings with the insured or brokers, or physical inspection of exposures.

26. Income Tax

The Company's provision for income tax consists of:

	2018	2017
Current	₱43,381,593	₱227,874,789
Final	14,726,572	8,234,167
Deferred	19,578,920	(54,735,857)
	₱77,687,085	₱181,373,099



- a. The current provision for income tax represents RCIT in 2018 and 2017.

The reconciliation of income before tax using the statutory corporate income tax rate of 30% to provision for income tax as shown in the statements of income follows:

	2018	2017
Provision for income tax at 30%	₱117,314,433	₱88,563,008
Increase (decrease) in income tax resulting from:		
Interest income subjected to final taxes	(18,690,445)	(14,914,690)
Fair value gains on financial assets at FVPL	(10,890,397)	(1,676,220)
Dividend income	(3,086,622)	(1,644,094)
Non-deductible EAR expenses	2,194,578	14,592,940
Changes in unrecognized DTA and other adjustments	(9,154,462)	100,484,658
	₱77,687,085	₱185,405,602

- b. The components of the net deferred tax assets (liabilities) follows:

	2018	2017
Deferred tax assets through profit or loss:		
Provision for claims IBNR, net of reinsurance	₱38,227,439	₱3,185,980
Impairment losses on property and equipment	27,637,556	22,093,800
Accrued expenses	2,397,829	-
	68,262,824	25,279,780
Deferred tax assets (liabilities) through other comprehensive income:		
Remeasurement loss on defined benefit obligation	30,572,383	39,760,597
Revaluation gain on property and equipment	(110,236,561)	(90,021,131)
	(79,664,178)	(50,260,534)
Deferred tax liabilities:		
Unrealized gain on revaluation of investment properties	(115,066,900)	(89,944,224)
Unrealized foreign exchange gain	(40,625,268)	(3,185,980)
	(155,692,168)	(93,130,204)
	(₱167,093,522)	(₱118,110,958)

The table below shows the temporary differences for which no deferred income tax assets have been set up because the Company believes that there will be no future taxable profit against which the benefit from these can be utilized.

	2018	2017
Deferred tax assets on:		
Accrued expenses	₱28,321,887	₱52,405,381
Allowance for impairment losses	3,135,514	55,504,522
Provision for claims IBNR, net of reinsurance	-	32,308,864



c. Details of NOLCO and MCIT as of December 31 follow:

NOLCO

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2015	₱187,010,101	(₱187,010,101)	₱-	₱-	2018
2016	-	-	-	-	2019
2017	-	-	-	-	2020
2018	-	-	-	-	2021
	₱187,010,101	(₱187,010,101)	₱-	₱-	

MCIT

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2015	₱29,230,189	(₱20,344,870)	(₱8,885,319)	₱-	2018
2016	-	-	-	-	2019
2017	-	-	-	-	2020
2018	-	-	-	-	2021
	₱29,230,189	(₱20,344,870)	(₱8,885,319)	₱-	

27. Contingencies

Various legal actions and claims are pending or may be assessed in the future against the Company from litigations and claims incident in 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. Commitments

Company as Lessee

The Company is a party under various leases covering certain offices which have lease terms between one (1) to five (5) years for its branches and main office. The leases provide for escalation of annual rates and are renewable under certain terms and conditions. In 2018 and 2017, rent expense amounted to ₱78.50 million and ₱75.72 million, respectively, and is included under "General expenses" account in the statements of income (see Note 25).

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2018	2017
Within one year	₱56,450,287	₱61,656,982
After one year but not more than five years	73,276,444	120,927,425
More than five years	46,676,849	54,721,929
	₱176,403,580	₱237,306,336

Company as Lessor

The Company has entered into a property leases on its investment property portfolio which have lease terms between three to five years. The leases provide for escalation of annual rates and are renewable under certain terms and conditions. In 2018 and 2017, rent income amounted to ₱23.16 million and ₱24.14 million, respectively, and is included under "Other income" account in the statements of income (see Note 22).



Future minimum rentals payable under non-cancellable operating leases are as follows:

	2018	2017
Within one year	₱10,457,242	₱9,785,770
After one year but not more than five years	24,152,848	22,626,140
	₱34,610,090	₱32,411,910

29. Management of Capital, Insurance and Financial Risks

Regulatory Framework

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

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

Capital Management Framework

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

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

Minimum Statutory Networth

On August 15, 2013, the President of the Philippines approved Republic Act No. 10607 to be known as the “New Insurance Code” which provides the new capitalization requirements for all existing insurance companies based on net worth on a staggered basis starting June 30, 2013 up to December 31, 2022.

The following presents the amount of required networth and the schedule of compliance per the New Insurance Code:

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

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

As of December 31, 2018 and 2017, the Company’s estimated statutory networth amounted to ₱1,699.70 million and ₱903.82 million, respectively.



Risk-based Capital Requirements

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

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

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

The following table shows how the RBC ratio as of December 31, based on RBC2 components, was determined by the Company:

	2018	2017
Networth	₱1,699,700,574	₱903,823,570
RBC requirement	1,379,259,680	850,918,671
RBC Ratio	123.23%	106.22%

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

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

Financial Reporting Framework

On December 28, 2016, IC CL No. 2015-29 was superseded by IC CL No. 2016-65 which was implemented beginning January 1, 2017. This circular prescribes the new financial reporting framework (FRF) used for statutory quarterly and annual reporting. The new FRF includes the economic valuation of asset and liabilities based on internationally accepted accounting, actuarial, and insurance core principles which requires quarterly and annual reporting of net worth to the IC. As of December 31, 2018 and 2017, the Company's total estimated admitted assets amounted to ₱15,264.73 million and ₱13,024.18 million, respectively.



Insurance Risk

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Company faces under such contracts is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, when actual benefits paid are greater than originally estimated and subsequent development of long-term claims.

The Company principally issues the following types of general insurance contracts: fire, motor, accident, casualty, marine, engineering and surety. Risks under general insurance policies usually cover a twelve-month duration.

For general insurance contracts, the most significant risks arise from climate changes, natural disasters and terrorist activities.

These risks vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry. Undue concentration by amounts can have a further impact on the severity of benefit payments on a portfolio basis.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events, for example hurricanes, earthquakes and flood damages.

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a predetermined maximum amount based on the Company's risk appetite as decided by management.

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

	2018			2017		
	Gross Contract Liabilities	Reinsurers Share of Liabilities	Net	Gross Contract Liabilities	Reinsurers Share of Liabilities	Net
Fire	₱2,027,096,748	₱1,118,803,225	₱908,293,523	₱1,335,266,488	₱654,532,142	₱680,734,346
Motorcar	202,923,956	3,300,996	199,622,960	259,467,844	940,149	258,527,695
Engineering	745,406,536	709,998,664	35,407,872	1,129,776,861	879,587,714	250,189,147
Personal accident	4,209,054	120,000	4,089,054	84,725,915	5,547,738	79,178,177
Others	330,132,002	147,053,698	183,078,304	102,855,209	89,554,101	13,301,108
	₱3,309,768,296	₱1,979,276,583	₱1,330,491,713	₱2,912,092,317	₱1,630,161,844	₱1,281,930,473

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

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



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

Assumptions

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

Sensitivities

In insurance, as a rule, there may be claims filed in the current year that would attach policies issued in the previous years. This in effect makes claims provision highly sensitive as represented by the table below. Other unpredictable circumstances like legislative uncertainties make it impossible to quantify claims. Also, due to delays arising between occurrence of claims and their subsequent reporting to and settlement by the Company, the outstanding claim provisions cannot be ascertained with confidence at the end of the reporting period.

As a result, the final liabilities will change as a result of succeeding developments. Differences from recomputation of the final liabilities are taken up in subsequent financial statements.

The table below shows the impact of changes in certain important assumptions in general insurance business while other assumptions remain unchanged. The interrelation of these assumptions will have an important impact in the computation of the final liabilities. But these assumption changes should be done on an individual basis to show the effect on the claims liabilities. It is worthwhile mentioning that these assumptions are nonlinear and larger or smaller impacts cannot be seen from these results.

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

2018				
	Change in Assumption	Increase (decrease) on Gross Insurance Liabilities	Increase (decrease) on Net Insurance Liabilities	Increase (decrease) on Profit Before Income Tax
Average claim costs	Increase by 10%	₱271,438,500	₱101,155,480	(₱101,155,480)
Average number of claims	Increase by 10%	377,898,251	144,843,530	(144,843,530)
2017				
	Change in Assumption	Increase (decrease) on Gross Insurance Liabilities	Increase (decrease) on Net Insurance Liabilities	Increase (decrease) on Profit Before Income Tax
Average claim costs	Increase by 10%	₱282,310,360	₱89,587,667	(₱89,587,667)
Average number of claims	Increase by 10%	173,060,397	71,974,270	(71,974,270)



Loss Development Triangle

The table below is an exhibit that shows the development of claims over a period of time. It shows the cumulative incurred claims for each successive accident year at each reporting date, together with cumulative claims.

Gross insurance contract liabilities as of December 31, 2018:

Accident Year	2008 & Prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs:												
At the end of accident year	1,134,229,405	1,015,436,802	1,611,354,510	2,536,255,675	2,240,429,489	5,351,582,079	2,605,006,937	2,097,659,664	2,170,478,518	2,563,842,508	3,182,814,947	3,182,814,947
One year later	1,343,265,479	4,265,156,815	1,576,852,718	1,548,464,539	1,907,509,206	4,231,044,607	2,231,711,319	2,205,948,552	1,696,607,632	3,085,523,198		3,085,523,198
Two years later	1,374,380,326	4,711,430,594	1,544,623,245	1,793,969,975	2,113,385,984	3,916,025,588	2,239,710,498	1,957,238,177	1,562,890,944			1,562,890,944
Three years later	1,380,740,450	5,066,404,711	1,567,747,942	1,798,964,306	2,152,650,776	3,916,873,096	2,108,447,150	1,765,996,730				1,765,996,730
Four years later	1,409,114,294	5,130,042,772	1,567,242,156	1,813,943,398	2,152,993,725	3,887,198,241	2,058,657,167					2,058,657,167
Five years later	1,421,867,681	5,134,182,132	1,599,512,927	1,814,208,586	2,144,638,971	3,880,816,569						3,880,816,569
Six years later	1,423,666,216	5,137,504,457	1,599,880,337	1,812,837,677	2,151,424,837							2,151,424,837
Seven years later	1,458,541,691	5,138,124,676	1,598,796,018	1,803,510,865								1,803,510,865
Eight years later	1,458,732,424	5,136,371,229	1,597,544,804									1,597,544,804
Nine years later	1,456,067,367	5,134,958,478										5,134,958,478
Ten years later	1,424,232,958											1,424,232,958
Current estimate of cumulative claims	1,424,232,958	5,134,958,478	1,597,544,804	1,803,510,865	2,151,424,837	3,880,816,569	2,058,657,167	1,765,996,730	1,562,890,944	3,085,523,198	3,182,814,947	27,648,371,497
Cumulative payments to date	1,424,232,535	5,134,920,978	1,597,543,604	1,803,499,766	2,151,388,382	3,880,195,508	2,055,122,996	1,698,807,917	1,274,747,627	2,031,875,258	1,286,268,629	24,338,603,200
Total gross insurance contract liabilities included in the statement of financial position	422	37,500	1,200	11,099	36,455	621,061	3,534,172	67,188,813	288,143,317	1,053,647,940	1,896,546,318	3,309,768,297



Net of insurance contract liabilities as of December 31, 2018:

Accident Year	2008 & Prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Estimate of ultimate claims costs:												
At the end of accident year	597,506,738	545,170,842	319,911,358	845,941,042	576,354,321	917,440,815	1,951,270,004	1,510,851,276	1,451,746,192	1,325,339,508	2,073,401,131	2,073,401,131
One year later	845,620,428	1,914,766,069	741,130,551	1,243,539,418	1,165,164,077	2,483,650,684	1,369,036,363	1,632,614,326	1,235,453,292	1,665,454,115		1,665,454,115
Two years later	874,561,074	2,499,544,251	787,850,829	1,278,101,161	1,212,342,815	1,996,611,100	1,373,538,941	1,486,646,158	1,111,779,200			1,111,779,200
Three years later	889,122,336	2,568,183,239	811,095,997	1,284,097,593	1,248,334,041	1,997,378,340	1,369,076,545	1,407,104,306				1,407,104,306
Four years later	892,697,331	2,580,800,254	810,433,530	1,298,847,128	1,248,676,990	1,992,148,256	1,340,385,101					1,340,385,101
Five years later	891,317,759	2,583,198,935	825,287,810	1,299,112,315	1,240,296,716	1,985,366,738						1,985,366,738
Six years later	890,013,365	2,586,452,889	825,655,219	1,297,760,003	1,246,750,337							1,246,750,337
Seven years later	924,888,840	2,587,073,108	824,574,272	1,288,604,416								1,288,604,416
Eight years later	925,079,573	2,585,319,661	823,489,276									823,489,276
Nine years later	922,414,516	2,583,930,993										2,583,930,993
Ten years later	890,580,107											890,580,107
Current estimate of cumulative claims	890,580,107	2,583,930,993	823,489,276	1,288,604,416	1,246,750,337	1,985,366,738	1,340,385,101	1,407,104,306	1,111,779,200	1,665,454,115	2,073,401,131	16,416,845,719
Cumulative payments to date	890,579,684	2,583,893,493	823,488,076	1,288,593,317	1,246,713,881	1,984,854,186	1,340,045,999	1,394,841,032	1,100,491,689	1,344,002,693	1,088,849,955	15,086,354,005
Total gross insurance contract liabilities included in the statement of financial position	422	37,500	1,200	11,099	36,455	512,552	339,102	12,263,273	11,287,510	321,451,422	984,551,177	1,330,491,713



Financial Risk

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

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

Credit risk

Credit risk is a risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Prior to extending credit, the Company manages its credit risk by assessing the credit quality of its counterparties.

Another way by which the Company manages its credit risk exposure is through credit analysis. This is a process of assessing the credit quality of a counterparty that entails judgment. The credit policy group reviews all information about the counterparty which may include the counterparty's statement of financial position, statements of income and other market information. The nature of the obligation is likewise considered. Based upon this analysis, the credit analyst assigns the counterparty a credit rating to determine whether or not credit may be provided.

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

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

	2018	2017
Cash and cash equivalents*	₱4,471,667,052	₱3,598,354,314
Short-term investments	283,658,842	435,288,241
Insurance receivables:		
Due from brokers and agents	2,174,896,125	1,745,369,995
Reinsurance recoverable on paid losses	696,675,810	475,194,870
Due from ceding companies	100,866,023	47,388,790
Financial assets:		
Financial assets at FVPL	672,844,430	474,341,864
Loans and receivables	31,243,150	170,932,356
Total	₱8,431,851,432	₱6,946,870,430

*Amount excluding cash on hand

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



As of December 31, 2018:

	Neither past due nor impaired		Past due or impaired	Total
	High	Medium		
Cash and cash equivalents*	₱4,471,667,052	₱-	₱-	₱4,471,667,052
Short-term investments	283,658,842	-	-	283,658,842
Insurance receivables:				
Due from agents and brokers	942,505,462	268,318,469	1,090,099,320	2,300,923,251
Reinsurance recoverable on paid losses	124,032,319	41,717,851	566,068,146	731,818,316
Due from ceding companies	26,188,506	2,974,826	71,702,691	100,866,023
Financial assets				
Financial assets at FVPL	672,844,430	-	-	672,844,430
Loans and receivables	31,243,150	-	-	31,243,150
Total financial assets	₱6,552,139,761	₱313,011,146	₱1,727,870,157	₱8,593,021,064

*Amount excluding cash on hand

As of December 31, 2017:

	Neither past due nor impaired		Past due or impaired	Total
	High	Medium		
Cash and cash equivalents*	₱3,598,354,314	₱-	₱-	₱3,598,354,314
Short-term investments	435,288,241	-	-	435,288,241
Insurance receivables:				
Due from agents and brokers	810,255,169	302,360,107	758,781,846	1,871,397,122
Reinsurance recoverable on paid losses	202,728,753	41,235,110	290,218,955	534,182,818
Due from ceding companies	4,669,511	3,671,384	39,047,895	47,388,790
Financial assets				
Financial assets at FVPL	474,341,864	-	-	474,341,864
Loans and receivables	170,932,356	-	-	170,932,356
Total financial assets	₱5,696,570,208	₱347,266,601	₱1,088,048,696	₱7,131,885,505

*Amount excluding cash on hand

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

Cash and cash equivalents, financial assets at FVPL and loans and receivables - High grade pertains to cash and cash equivalents deposited or invested in local banks belonging to the top 10 rankings and financial assets at FVPL with counterparties having a strong capacity to meet their obligations.

Insurance receivables - High grade pertains to receivables from counterparties with strong capacity to meet their obligations and have no history of default in payment; medium grade pertains to receivables that are usually collected beyond 60 days. Accounts beyond the standard 90-day credit term are classified as 'past due'.

The tables below show the aging analysis of past due but not impaired and impaired financial assets:

As of December 31, 2018:

	Past due but not impaired			Total	Impaired	Total
	91 to 120 days	121 to 360 days	Over 360 days			
Due from brokers and agents	₱320,887,252	₱633,658,008	₱9,526,933	₱964,072,193	₱126,027,127	₱1,090,099,320
Reinsurance recoverable on paid losses	13,566,841	104,036,708	413,322,092	530,925,641	35,142,505	566,068,146
Due from ceding companies	6,422,453	52,057,246	13,222,992	71,702,691	-	71,702,691
	₱340,876,546	₱789,751,962	₱436,172,017	₱1,566,800,525	₱161,169,632	₱1,727,870,157



As of December 31, 2017:

	Past due but not impaired			Total	Impaired	Total
	91 to 120 days	121 to 360 days	Over 360 days			
Due from brokers and agents	₱195,759,013	₱376,484,625	₱60,511,081	₱632,754,719	₱126,027,127	₱758,781,846
Reinsurance recoverable on paid losses	62,286,024	105,900,776	63,044,207	231,231,007	58,987,948	290,218,955
Due from ceding companies	3,134,877	18,179,489	17,733,529	39,047,895	–	39,047,895
	₱261,179,914	₱500,564,890	₱141,288,817	₱903,033,621	(₱185,015,075)	₱1,088,048,696

Liquidity risk

Liquidity 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. The major liquidity risk confronting the Company is the daily calls on its available cash resources in respect of claims arising from insurance contracts. The Company manages liquidity through a liquidity risk policy which determines what constitutes liquidity risk for the Company; specifies minimum proportion of funds to meet emergency calls; set up of contingency funding plans; specifies the sources of funding and the events that would trigger the plan; determines concentration of funding sources; reports liquidity risk exposures and breaches; monitoring compliance with liquidity risk policy and reviews liquidity risk policy for pertinence and changing environment.

The table below analyzes financial assets and liabilities of the Company, as well as the claims payable and related recoverable on reinsurers, into their relevant maturity groups based on the remaining period at the reporting dates to their contractual maturities or expected repayment dates.

As of December 31, 2018:

	Up to a year	1-3 years	No term	Total
Financial assets at FVPL	₱419,052,169	₱253,792,261	₱–	₱672,844,430
AFS financial assets	–	–	577,011,677	577,011,677
Loans and receivables - net				
Cash and cash equivalents	4,472,247,883	–	–	4,472,247,883
Short-term investments	283,658,842	–	–	283,658,842
Reinsurance recoverable on unpaid losses	2,240,856,819	–	–	2,240,856,819
Insurance receivables - net	2,972,437,958	–	–	2,972,437,958
Loans and receivables	31,243,150	–	–	31,243,150
Total financial assets	₱10,419,496,821	₱253,792,261	₱577,011,677	₱11,250,300,759
Other financial liabilities				
Provision for claims reported and IBNR claims	3,698,773,511	–	–	3,698,773,511
Insurance payables	2,747,135,200	–	–	2,747,135,200
Accounts payable and accrued expenses*	1,760,613,568	–	–	1,760,613,568
Other liabilities	664,126,247	–	–	760,611,769
Total financial liabilities	8,870,648,526	–	–	8,870,648,526
Net excess liquidity	₱1,548,848,295	₱253,792,261	₱577,011,677	₱2,379,652,233

*Amount excluding statutory liability.



As of December 31, 2017:

	Up to a year	1-3 years	No term	Total
Financial assets at FVPL	₱212,772,879	₱261,568,985	₱–	₱474,341,864
AFS financial assets	–	–	548,318,436	548,318,436
Loans and receivables - net				
Cash and cash equivalents	3,598,744,114	–	–	3,598,744,114
Short-term investments	435,288,241	–	–	435,288,241
Reinsurance recoverable on unpaid losses	1,860,732,911	–	–	1,860,732,911
Insurance receivables - net	2,267,953,655	–	–	2,267,953,655
Loans and receivables	170,932,356	–	–	170,932,356
Total financial assets	8,546,424,156	261,568,985	548,318,436	9,356,311,577
Other financial liabilities				
Provision for claims reported and IBNR claims	3,185,592,181	–	–	3,185,592,181
Insurance payables	2,542,943,008	–	–	2,542,943,008
Accounts payable and accrued expenses*	1,914,054,909	–	–	1,914,054,909
Other liabilities	269,775,613	–	–	269,775,611
Total financial liabilities	7,912,365,711	–	–	7,912,365,711
Net excess liquidity	₱634,058,445	₱261,568,985	₱548,318,436	₱1,443,945,866

*Amount excluding statutory liability.

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

Market risk

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

The Company structures levels of market risk it accepts through a market risk policy that determines what constitutes market risk for the Company; the basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument; the net exposure limits by each counterparty or group of counterparties, industry segments and market risk exposures; compliance with market risk policy and review of market risk policy for pertinence and changing environment.

a) Currency risk

The Company's principal transactions are carried out in Philippine peso and its exposure to foreign exchange risk arises primarily with respect to the US and Singapore Dollar, and Japanese Yen, as it deals with foreign reinsurers in its settlement of its obligations and receipt of any claim reimbursements

The Company maintains US and Singapore Dollar-denominated, and Japanese Yen-denominated fixed deposits to meet its dollar obligations from its dollar insurance products.



The following tables show the details of the Company's foreign currency-denominated monetary assets and their Philippine peso equivalents.

	2018					
	USD	PHP	Japanese Yen	PHP	SGD	PHP
Cash and cash equivalents	\$21,118,675	₱1,110,419,949	¥5,510,763	₱2,618,164	S\$-	₱-
Short-term investments	3,566,376	187,520,033	-	-	-	-
Premiums receivable	4,685,836	246,381,257	-	-	-	-
Due from ceding companies	915,609	48,142,708	-	-	-	-
Reinsurance recoverable on paid losses	114,510	6,020,939	-	-	138,687	5,335,366
	\$30,401,006	₱1,598,484,886	¥5,510,763	₱2,618,164	S\$138,687	₱5,335,366

	2017					
	USD	PHP	Japanese Yen	PHP	SGD	PHP
Cash and cash equivalents	\$13,171,454	₱657,558,477	¥5,860,604	₱2,592,145	S\$-	₱-
Short-term investments	17,199,787	858,664,955	-	-	-	-
Premiums receivable	8,184,944	408,616,952	-	-	4,877	290,733
Due from ceding companies	150,814	7,529,068	-	-	-	-
Reinsurance recoverable on paid losses	205,803	10,274,279	-	-	-	-
	\$38,912,800	₱1,942,643,731	¥5,860,604	₱2,592,145	S\$4,877	₱290,733

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Company's income before tax.

As of December 31, 2018:

Currency	Foreign currency appreciation / (depreciation)	Impact on income before tax Increase (decrease)
US Dollar	3.50%	₱55,946,971
	(3.50%)	(55,946,971)
Japanese Yen	5.80%	151,853
	(5.80%)	(151,853)
Singapore Dollar	4.30%	229,421
	(4.30%)	(229,421)

As of December 31, 2017:

Currency	Foreign currency appreciation / (depreciation)	Impact on income before tax Increase (decrease)
US Dollar	+3.50%	₱53,067,820
	(3.50%)	(53,067,820)
Japanese Yen	+5.40%	139,976
	(5.40%)	(139,976)
Singapore Dollar	2.90%	8,431
	(2.90%)	(8,431)



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

b) *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 rate risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk. The Company's financial assets at FVPL, in particular, is exposed to fair value interest rate risk.

The Company's market risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

The following tables show information relating to the Company's financial instruments which are subject to interest rate risk based on maturity profile:

As of December 31, 2018:

	Interest rate (%)	Maturity		Total
		Within a year	1-3 years	
Cash in banks	0.25 to 1.00	2,795,047,063	–	2,795,047,063
Cash equivalents	0.75 to 6.25	1,676,619,989	–	1,676,619,989
Short-term investments	1.10 to 4.00	283,658,842	–	283,658,842
Financial assets at FVPL	3.88 to 7.15	419,052,169	253,792,261	672,844,430

As of December 31, 2017:

	Interest rate (%)	Maturity		Total
		Within a year	1-3 years	
Cash in banks	0.25 to 1.00	2,386,129,295	–	2,386,129,295
Cash equivalents	0.75 to 2.75	1,212,225,019	–	1,212,225,019
Short-term investments and other investments	0.85 to 2.50	435,288,241	152,038,395	587,326,636
Financial assets at FVPL	2.13 to 5.59	212,772,879	261,568,985	474,341,864

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on revaluing fixed rate financial assets at FVPL. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

	Change in interest rates	Impact on income before tax
		Increase (decrease)
December 31, 2018	+100 basis points	(P5,539,560)
	–100 basis points	5,561,888
December 31, 2017	+100 basis points	(P5,780,354)
	–100 basis points	5,956,117

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



c) *Price risk*

The Company's price risk exposure at year end relates to financial assets and liabilities whose values fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk). This relates primarily to the Company's AFS equity financial assets.

Such equity 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 investments; diversification plan; limits on investment in each sector and market.

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

As of December 31, 2018:

Market index	Change in equity prices	Impact on equity Increase (decrease)
PSEi 2018	+1.00%	₱1,630,411
PSEi 2018	-1.00%	(1,630,411)

As of December 31, 2017:

Market index	Change in equity prices	Impact on equity Increase (decrease)
PSEi 2017	+8.21%	₱14,624,223
PSEi 2017	-8.21%	(14,624,223)

30. Fair Value Measurement

Financial Instruments

The carrying values of cash and cash equivalents, insurance receivables, loans and receivables, insurance payables, accounts payable and accrued expenses, loans payable and other liabilities approximate their fair values due to the short-term nature of these financial instruments.

The fair value of financial assets at FVPL and AFS financial assets that are actively traded in organized financial markets are determined by reference to quoted market prices, at the close of business at each reporting date or the last trading day as applicable. Unquoted AFS equity financial assets are carried at cost.



Fair value Hierarchy

The fair value hierarchy of the Company's financial and non-financial assets are summarized in the tables below.

Consolidated					
2018					
Fair Value					
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial Assets					
Financial assets at FVPL:					
Government Securities	₱672,844,430	₱672,844,430	₱672,844,430	₱-	₱-
Financial assets at AFS:					
Common shares	430,911,985	500,434,962	500,434,962	-	-
Preferred shares	72,790,005	71,496,715	71,496,715	-	-
Club shares	1,103,000	5,080,000	5,080,000	-	-
Non-financial Assets					
Investment properties	593,607,630	593,607,630	-	-	593,607,630
Property and equipment	833,682,915	833,682,915	-	-	833,682,915
	2,604,939,965	2,677,146,652	1,249,856,107	-	1,427,290,545
Assets for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Employee receivables	11,922,246	11,922,246	-	11,922,246	-
Interest receivables	16,089,660	16,089,660	-	16,089,660	-
Mortgage loans receivables	540,641	540,641	-	540,641	-
Other receivables	2,690,603	2,690,603	-	2,690,603	-
	₱31,243,150	₱31,243,150	₱-	₱31,243,150	₱-
Consolidated					
2017					
Fair Value					
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial Assets					
Financial assets at FVTPL:					
Government Securities	₱474,341,864	₱474,341,864	₱474,341,864	₱-	₱-
Financial assets at AFS:					
Common shares	443,925,459	484,725,991	484,725,991	-	-
Preferred shares	56,522,500	59,457,445	59,457,445	-	-
Club shares	1,103,000	4,135,000	4,135,000	-	-
Non-financial Assets					
Investment properties	509,247,546	509,247,546	-	-	509,247,546
Property and equipment	698,897,347	698,897,347	-	-	698,897,347
	2,184,037,716	2,230,805,193	1,022,660,300	-	1,208,144,893
Assets for which fair values are disclosed					
Financial assets					
Loans and receivables:					
Employee receivables	10,061,373	10,061,373	-	10,061,373	-
Interest receivables	7,140,716	7,140,716	-	7,140,716	-
Mortgage loans receivables	909,091	909,091	-	909,091	-
Other receivables	782,781	782,781	-	782,781	-
Other investments	152,038,395	152,038,395	-	152,038,395	-
	₱170,932,356	₱170,932,356	₱-	₱170,932,356	₱-



As of March 28, 2019, the date of valuation, the non-financial assets' fair values are based on the valuations performed by CAI.

Description of valuation techniques used and key inputs to valuation on investment properties are as follows:

Location	Significant unobservable inputs	2018	2017
		Range (weighted average)	
Block 3, Lot 5 Barangay East Greenhills, Mandaluyong City	External factor		
		-10%	-10%
	Net price (P/sq.m)	₱292,890	₱225,000
	Internal factor		
	Location	3.33%	3.33%
	Size	6.33%	3.66%
	Improvement	-	-6.67%
	Algebraic sum of internal factor	-9.67%	-
	Computed Value	₱264,351	₱220,800
Block 3, Lot 2 Barangay East Greenhills, Mandaluyong City	External factor		
		-10%	-10%
	Net price (P/sq.m)	₱292,890	₱225,000
	Internal factor		
	Location	3.33%	3.33%
	Size	6.33%	3.66%
	Improvement	-	-6.67%
	Algebraic sum of internal factor	-9.67%	-
	Computed Value	₱264,351	₱220,800
Rizal Street, Barangay 21 Bacolod City, Negros Occidental	External factor		
		-8.33%	-8.33%
	Net price (P/sq.m)	₱36,667	₱36,667
	Internal factor		
	Location	11.67%	11.67%
	Size	3.66%	3.66%
	Time Element	2.33%	-4.67%
	Improvement	1.67%	1.67%
		Algebraic sum of internal factor	16%
	Computed Value	₱37,357	₱35,435

31. Restatements

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2017 is presented in these financial statements due to retrospective adjustments as disclosed below. Following are the significant adjustments that brought about those restatements:

Following are the significant adjustments that brought about these restatements:

- a. Investment properties and Property and equipment - net
As discussed in Notes 10 and 11, the Company voluntarily changed its accounting policy on the subsequent measurement of its Land and Building classified as investment property and property and equipment from cost model to fair value and revaluation model, respectively. The Company believes that the change will result in providing reliable and more relevant information about the



effects of transactions, other events or conditions on the Company's financial position, financial performance and cash flows.

- b. Net premiums earned, Insurance payables and Deferred income tax liabilities
In 2018, the Company has made the necessary adjustments to recognize the reinsurers' share of gross premiums earned in prior periods and the prior year financial statements have been restated to reflect such adjustments.
- c. Unearned premium reserves, deferred reinsurance premiums, deferred acquisition costs, and deferred reinsurance commissions
In 2018, all accounts affected by 24th method recomputation in prior years were restated to reflect the corrected balances.
- d. Other income, accounts payable and accrued expenses, and other liabilities
Long outstanding payable balances for which management believes are no longer valid were reversed to income. The prior year financial statements have been restated to reflect such adjustments.

Management believes that the presentation of a statement of financial position as at the beginning of the earliest period presented is necessary as the restatements have significant impact on the Company's retained earnings as of January 1, 2017 as follows:

	As at December 31, 2017		
	As previously stated	Adjustments	As Restated
Statement of Financial Position			
Assets			
Insurance receivables	₱2,204,178,468	₱63,775,187	₱2,267,953,655
Deferred acquisition costs	882,524,679	5,809,058	888,333,737
Reinsurance assets	3,443,467,902	(592,249,938)	2,851,217,964
Investment properties	79,061,831	430,185,715	509,247,546
Property and equipment - net	595,934,150	102,963,197	698,897,347
Other assets	575,904,422	19,458,979	595,363,401
Liabilities			
Insurance contract liabilities	6,029,634,836	17,664,272	6,047,299,108
Insurance payables	1,811,374,362	731,568,646	2,542,943,008
Accounts payables and accrued expenses	2,959,397,842	(655,011,872)	2,304,385,970
Deferred reinsurance commissions	99,803,700	278,395	100,082,095
Deferred income tax liabilities	–	118,110,958	118,110,958
Other liabilities	362,466,360	(92,690,747)	269,775,613
Equity			
Revaluation reserve on AFS financial assets	37,823,374	8,944,103	46,767,477
Revaluation reserve on property and equipment	–	210,049,305	210,049,305
Retained earnings	923,531,758	(308,970,864)	614,560,894



As at December 31, 2017			
	As previously stated	Adjustments	As Restated
Statement of Income			
Revenues			
Net premiums earned	₱4,498,877,151	(₱960,438,169)	₱3,538,438,982
Commission Income	159,802,042	(278,395)	159,523,647
Investment and other income - net	80,228,378	72,049,552	152,277,930
Other income	412,779,567	698,175,963	1,110,955,530
Expenses			
Commission expense	1,620,816,946	10,933,382	1,631,750,328
General expenses	1,484,460,818	29,832,239	1,514,293,057
Net income	259,777,213	(145,940,286)	113,836,927
As at January 1, 2017			
	As previously stated	Adjustments	As Restated
Statement of Financial Position			
Assets			
Investment property	₱80,637,012	₱367,075,905	₱ 447,712,917
Property and equipment	548,831,716	78,283,665	627,115,381
Liabilities			
Insurance contract liabilities	4,565,967,002	(7,768,958)	4,558,198,044
Insurance payables	1,453,522,677	344,015,574	1,797,538,471
Deferred income tax liabilities - net	67,835,739	97,786,690	165,622,429
Equity			
Revaluation reserve on property and equipment	-	174,374,052	174,374,052
Retained earnings	663,754,546	(163,048,008)	500,706,538

32. Supplementary information required under revenue regulations no. 15-2010

In compliance with the requirements set forth by Revenue Regulations (RR) No. 15-2010 hereunder are the information on taxes and license fees paid or accrued for the year ended December 31, 2017.

a. Value-Added Tax (VAT)

- i. The Company is a VAT-registered entity with output VAT declaration of ₱798.70 million in 2018 based on the total direct premiums reflected in the Company's VAT returns amounting to ₱6,655.80 million.

The Company has zero-rated transactions amounting to ₱568.78 million in 2018 which pertain to sale to an entity registered with Philippines Economic Zone Authority (PEZA). Purchases by PEZA-registered entities are subject to zero-rated VAT pursuant to the provisions of Republic Act No. 7227, RR No. 2-2005, and BIR Ruling ITAD-45-00.



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

Balance at January 1	₱9,277,979
Current year's purchases/payments:	
Goods other than for resale	11,470,241
Services paid lodged under operating expenses	172,540,943
	<u>193,289,163</u>
Input VAT applied against Output VAT	(166,728,255)
Balance at December 31	<u><u>₱26,560,908</u></u>

b. Taxes relating to Nonlife Insurance Policies

Taxes relating to nonlife insurance policies that have been shifted or passed on the policyholders and are not recognized in the statement of comprehensive income follow:

- i. The total documentary stamp tax (DST) affixed on insurance policies amounted to ₱743.06 million in 2018.
- ii. Other taxes during year which represent the total amount accrued and paid follow:

Premium taxes	₱3,024,930
Fire service taxes	11,489,909
Local government taxes	8,173,392
	<u>₱22,688,231</u>

c. Other Taxes and Licenses

Details of other taxes, local and national, including real estate taxes, license and permit fees are presented in the succeeding tables.

- i. National taxes and licenses:

Fringe benefits tax	₱646,916
DST	2,269,751
LTO registration	417,960
IC fees	1,428,142
Total	<u>₱4,762,770</u>

- ii. Local taxes and licenses:

Mayor's permit	₱1,564,335
Real estate taxes	980,847
Others:	
Breach of tariff	2,653,116
Appraisal fee	95,143
Notarial fees	58,162
Community tax certificate	39,920
Total	<u>₱5,391,522</u>

The company did not incur any excise tax in 2018.



d. Withholding Taxes

The amount of withholding taxes for the year amounted to:

Expanded withholding taxes	₱225,147,204
Tax on compensation and benefits	70,234,007
<u>Total</u>	<u>₱295,381,211</u>

e. Tax Assessments

The Company is not involved in any tax cases, litigations and/or prosecutions in courts or bodies outside the BIR as of December 31, 2018.

