PERLA COMPAÑIA DE SEGUROS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

1. Corporate Information

Perla Compañia De Seguros, Inc. was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1963. An extension of corporate life for another 50 years was approved by SEC on October 17, 2011. Its primary purpose is to engage in the business and operation of all kinds of insurance at sea, on land, of properties, goods and merchandise, and all forms of transportation and conveyance against fire, earthquake, marine perils, accidents and all other forms and lines of insurance authorized by law, except life insurance.

The Company's registered and head office address is located on the 2nd Floor, Perla Compañia de Seguros Mansion, 117 Carlos Palanca, Jr. Street, Legaspi Village, Makati City. Its operation is complemented by 16 branches located at major cities across the country.

The financial statements of the Company for the year ended December 31, 2018 (including the comparative figures for the year ended December 31, 2017) were authorized for issue by the Board of Directors on April 1, 2019.

2. Basis of Preparation and Presentation

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

Basis of Financial Statement Preparation and Presentation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets which are available for sale and land which are carried at fair values.

The financial statements are presented in Philippine Peso and all values represent absolute amount except as otherwise indicated.

The Company presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within twelve months after the end of the reporting period (current) is presented in the Note 32.

3. Summary of Significant Accounting Policies

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

Cash and Cash Equivalents
Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash with original maturities of three months or less that are subject to insignificant risk of changes in value.

Short-term Investments
These are short-term cash investments with original maturities of more than three months but less than one year.

Financial Instruments

Date of Recognition
Financial assets and financial liabilities are recognized in the statements of financial position of the Company when it becomes a party to the contractual provisions of the instrument.

Initial Recognition
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of these financial instruments includes transaction costs.

Determination of Fair Value
The fair value for instruments traded in active market at the reporting date is based on their quoted market price. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which market observable prices exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instruments or based on a valuation technique, the Company recognizes the difference between the transaction price and fair value in the statement of comprehensive income unless it qualifies for recognition as some other type of asset.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

Classification of Financial Instruments
The Company classifies financial assets into the following categories, (i) At fair value through profit or loss (FVPL), (ii) Available-for-sale, (iii) Held-to-maturity and (iv) Loans and receivable. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

- Financial Assets and Financial Liabilities at FVPL
  Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL. After initial recognition, financial assets and financial liabilities at FVPL are carried at fair value.

  A financial asset and financial liability is classified as held for trading if:

  - It has been acquired principally for the purpose of selling in the near future; or
  - It is part of an identified portfolio of financial instruments that the Company manages together and has recent actual pattern of short-term profit-taking; or
  - It is a derivative that is not designated and effective as a hedging instrument.

  A financial asset other than a financial asset held for trading may be designated as at FVPL upon initial recognition if:

  - Such designation eliminates or significantly reduces a measurement or recognition inconsistently that would otherwise arise; or
  - The financial asset forms part of a group of financial assets that is managed and its performance is evaluated on a fair value basis.
  - It forms part of a contract containing one or more embedded derivatives.

As of December 31, 2018 and 2017, financial assets under this category amounted to P107,729,950 and P71,814, 629, respectively.

- Available-for-sale (AFS)
  AFS are non-derivative financial assets that are either designated on this category or not classified in any of the other categories. Subsequent to initial recognition, AFS assets are carried at fair value in the statement of financial position. Changes in the fair value are recognized directly in equity account as "*Revaluation* r*eserve on AFS financial assets*". Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period.

  As of December 31, 2018 and 2017, financial assets under this category amounted to P281,890,501 and P327,102,086, respectively.

- Loans and Receivables
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate.

  Included under this category are the company's cash and cash equivalents, advances, deposits and security fund.

- Held-to-maturity (HTM)
  HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. After initial measurement, HTM assets are carried at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Any changes to the carrying amount of the investment are recognized in statements of income.

  As of December 31, 2018 and 2017, financial assets under this category amounted to P608,322,429 and P558,466,331, respectively.

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- Other Financial Liabilities
  Issued financial instruments or their components, which are not designated as 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. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

  Included under this category are accounts payable and accrued expenses. Furthermore, the adoption of PFRS 9 does not significantly change the accounting for financial liabilities under PAS 39.

Reclassification of Financial Assets
A financial asset is reclassified out of the FVPL category when the following conditions are met:

(i) the financial asset is no longer held for the purpose of selling or repurchasing it the near future; and,
(ii) there is a rare situation

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Impairment of Financial Assets
The Company assesses at each end of the reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(i) Assets carried at amortized cost
If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost 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 financial asset's original effective interest rate. The amount of the loss is recognized in the profit and loss accounts.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

Any subsequent reversal of an impairment loss is recognized in the profit and loss accounts, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(ii) Assets carried at cost
If there is 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 an 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. Such impairment losses are not reversed in subsequent periods.

(iii) Available-for-sale financial assets
Available-for-sale financial assets are subject to impairment review at each end of the reporting period. Impairment loss is recognized when there is objective evidence such as significant financial difficulty of the issuer/obligor, significant or prolonged decline in market prices and adverse economic indicators that the recoverable amount of an asset is below its carrying amount.

Derecognition of Financial Instruments

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

- the rights 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.
- the Company has transferred its rights 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 the control of the asset.

Where the Company has transferred its rights 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 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 profit or loss.

<u>Accounting Policies for Insurance and Reinsurance Contracts</u>

Insurance Contract
Insurance contract is an agreement under which one party (the insurer), accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured events) adversely affects the policyholder.

Contract classification
The Company issues short-term insurance contracts categorized as (i) Casualty, (ii) Property, (iii) Guaranty and (iv) Short - duration life accident insurance.

Casualty insurance contracts protect the assured against the risk of causing them harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. Property insurance contracts mainly compensate the Company's assured for damages suffered to their properties or for the value of property lost. Short-duration accident insurance protects the assured from the consequences of events such as death or disability.

An insurance contract remains in force at the inception date of policy until its maturity regardless of number of claims reported and for as long as the coverage is sufficient.

Insurance Receivables
These include amounts due to and from agents, brokers and insurance contract holders which comprise the balance of uncollected policy premiums and reinsurance premiums from reinsurers arising from reinsurance contracts measured at amortized cost, using the effective interest method.

Reinsurance
The Company assumes and cedes (Treaty and Facultative) insurance risk in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognized as revenue in the same manner as they would be if the reinsurance were considered as direct business, taking into account the product classification of the reinsured business.

Amounts recoverable from reinsurers that relate to paid and unpaid claims and claim adjustment expenses are classified as assets. Reinsurance receivables and the related liabilities are reported separately.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive the amounts due to it under the terms of the contract and that it can be measured reliably.

Reinsurance assets and liabilities are derecognized when the contractual rights is extinguished or expired.

Deferred Acquisition Costs
Commissions and other expenses directly attributable to the production and renewal of insurance contracts are deferred in proportion to premium revenue recognized. Deferred acquisition costs are amortized over the life of the policy in which it was incurred.

Deferred acquisition costs are reviewed at each reporting date and the carrying value is written down to the recoverable amount.

Reserve for Unearned Premiums and Reinsurance Premiums
Reserve for unearned premiums is calculated on the following basis:

(i) Reserves for unearned premium are calculated using the 24^{th} method based on gross premiums written. Under the 24^{th} method, it is assumed that the average date of issue of all policies written during any one month is the middle of that month.

(ii) Reserve for unearned premiums on inward treaties is taken up based on the dates the statement is received.

Reserve for reinsurance premium represents the portion of reinsurance premiums ceded computed in the same manner as the reserve for unearned premiums.

The changes in reserve for unearned premiums and reinsurance premiums are reported in the statements of income.

Claim Cost Recognition
Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when insured events occur.

The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim cost resulting from continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made.

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

Estimates of salvage recoveries are included as a reduction in the measurement of the insurance liability for claims, and salvage property is recognized in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

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

Share in recoveries on claims are evaluated in terms of the estimated realizable values of the salvage recoverable. Recoveries on claims are recognized in profit or loss and expenses in the period the recoveries are determined. Recoverable amounts are presented as part of Reinsurance assets.

Options and Guarantees
Options and guarantees within insurance are treated as derivative financial instruments which are closely related to the host insurance contracts and are therefore not separated subsequently.

Investment Properties
Investment properties consist of properties that are held to earn rentals or for capital appreciation or both and that is not occupied by the company. Investment properties are initially measured at cost, including transaction costs.

Prior to October 4, 2017, Investment property is subsequently measured at cost less accumulated depreciation and impairment loss, if any. Effective October 4, 2017, Investment property is measured at fair value.

After initial recognition, investment property is carried on October 4, 2017 at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The Company reviews these valuations annually.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Investment property is derecognized when either it has been disposed of, or when the investment property is permanently withdrawn or sold and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Property and Equipment
Property and equipment are initially recognized at cost including the costs to get the property ready for its intended use. Subsequent to initial recognition, property and equipment, except land, are carried at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed on a straight-line method over the estimated useful lives of the depreciable assets as follows:

Building & condominium units	50 years
Furniture, fixtures and office equipment	5-10 years
Transportation equipment	5 years

Land and condominium unit are carried at revalued amounts. Any revaluation increase arising on the revaluation of such property and equipment is recognized in other comprehensive income and is credited to "*Revaluation reserve on Land – net of tax*" and *"Revaluation reserve on Building – net of tax"* accounts. Upon disposal, any revaluation increment relating to land being sold is transferred to retained earnings. Revaluation increment on condominium unit is absorbed to retained earnings through depreciation of the condominium unit.

An asset's residual value, useful life and depreciation method are reviewed periodically to ensure that the period, residual value and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Expenditures for additions, major improvements and renewals are capitalized while minor repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in the statement of comprehensive income for the period.

When the carrying amount of an asset is greater than its estimated recoverable amount, the cost is written down immediately to its recoverable amount. Fully depreciated assets are retained in the accounts until they are no longer in use.

Impairment of Non-financial Assets
The Company's investment properties and property and equipment are subject to impairment testing. All other individual asset or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indication that an impairment loss previously recognized may no longer exists and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Insurance claims payable
Liabilities for claims is calculated as the sum of Outstanding claims reserve, Claims handling expense, and Incurred but not reported claims (IBNR), with Margin for Adverse Deviation (MfAD). At end of each reporting period, liability adequacy tests are performed, to ensure the adequacy of liabilities for claims. In performing the test for premium liabilities, the Unearned Risk Reserve (URR) is compared to the Unearned Premium Reserve (UPR). If the URR is greater than the UPR, the excess is set up as an additional premium liability on top of the UPR.

In calculating IBNR, the following primary reserving methodologies were applied in the valuation process

- Chain ladder or Loss Development Triangles Method
- Bornhuetter-Ferguson method.
- Expected Loss Ratio Method

The Actuary determines the appropriateness of the methodology considering the characteristics of the data available. The Actuary also assesses the reliability of the expected loss ratios by obtaining estimates from various sources, such as underwriters, the business plan, pricing actuaries, market statistics, or from a historic view of profitability and loss ratios. In valuing the claims liabilities, the Actuary also considers other factors such as, but not limited to, varying expense structure in run-off situations, large losses arising from significant past events, operational changes in claims management, underwriting changes such as business mix and premium rate changes, changes in reinsurance program, changes in claims handling process, and external conditions.

To ensure sufficiency of reserves, the Actuary conducts a back-testing exercise by comparing actual and expected experience based on previous valuations. Claim liabilities also include MfAD to allow for inherent uncertainty of the best estimate.

Premium Reserves

Premium reserves refer to all future claim payments arising from future events after the valuation date that are insured under unexpired policies, as well as expenses for policy management and claims settlement, and is computed as the higher of the UPR and URR at a designated level of confidence, on both gross and net of reinsurance basis.

UPR is the reserve for that portion of the premium received which is attributable to a period of risk falling beyond the valuation date, and is recognized as revenue over the period of the policy using the 24th method. URR is an estimate of the total liability (including expenses), at a designated level of confidence, in respect of the risk after the valuation date of policies written prior to that date including expenses for policy management and claims settlement costs. In estimating URR, the Company adopted the loss ratio approach by multiplying the UPR with loss ratios adjusted by taking into account all potential future payments including but not limited to future claims payments, retrocession costs, unallocated loss adjustment expense and ongoing policy administration costs arising from the unearned portion of premium collected. A computation is performed to determine whether the URR required is greater or less than the UPR. If the URR is greater, then the difference should be booked as an additional reserve on top of the UPR.

Accounts Payable and Accrued Expenses

Accounts payables are liabilities for supplies or services that have been received or provided and have been invoiced or formally agreed with the supplier. Accounts payables are non-interest bearing and are stated at their original invoice amount since the effect of discounting is immaterial.

Accruals are liabilities for goods or services that have been received or provided but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees.

Equity

Share capital is determined at par value of shares that have been issued.

Contributed surplus represent additional contribution of stockholders to the Company in compliance with the requirement of the Insurance Commission.

Retained earnings include all current and prior period results of operations as disclosed in the Statements of Income.

Revaluation reserve comprises changes in fair value due to revaluation of AFS, land and building, net of deferred income tax.

In accordance with Section 195 of the Insurance Code, dividend declaration or distribution from accumulated profits remaining on hand can only be made after retaining unimpaired the following:

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

Revenue Recognition

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

Premiums
Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies at end of the reporting periods are accounted for as "*Reserve for Unearned Premiums"* and presented in the liability section of the statement of financial position. The reinsurance premiums ceded that pertains to the unexpired period as at reporting dates are accounted for as "*Reserve for reinsurance premium*" and lodge under "*Reinsurance assets*" account in the statements of financial position. The net changes in these accounts between reporting dates are credited or charged against income for the year.

Commission
Reinsurance commissions are recognized as revenue over the period of the contracts. The portion of commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as "*Deferred commission income*" in the liabilities section of the statement of financial position.

Interest income
Interest income from bank deposits, special savings account and held-to-maturity investment is recognized as interest accrues taking into account the effective yield on the related asset.

Dividend income
Dividend income is recognized when the right to receive dividends is established.

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

Realized Gains and Losses
Realized gains and losses on the sale of property and equipment are calculated as the difference between net sales proceeds and the net book value. Realized gains and losses on the sale of AFS financial assets are calculated as the difference between net sales proceeds and the original cost net of accumulated impairment losses. Realized gains and losses are recognized in profit or loss when the sale transaction occurred.

<u>*Cost and Expense Recognition*</u>
Claims
Liabilities for claims and claims adjustments expenses relating to insurance contracts are accrued when insured events occur.

The liabilities for claims (including those incurred but not reported) are based on the estimated ultimate cost of settling these claims. The method of determining such estimates and establishing reserve are continually reviewed and updated. Changes in estimates of claims cost resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense in the period the estimates are made.

Share in recoveries of claim are evaluated in terms of the estimated realizable values of the salvage or recoveries. Recoveries on settled claims are recognized in profit or loss in the period the recoveries are determined. Recoveries on the unsettled claims are recorded as reinsurance recoverable on losses shown as part of reinsurance assets.

Acquisition cost
Cost that vary with and primarily related to the acquisition of new and renewal insurance contracts such as commissions, certain underwriting, and policy issue cost and inspection fees are deferred and charged to expense in proportion to the premium revenue recognized. Unamortized acquisition costs are shown in the statement of financial position as deferred acquisition cost.

Reinsurance commission
Commissions paid to cedants are deferred and are included in deferred acquisition cost, subject to the same amortization method.

Expenses
Other cost and expenses are recognized when incurred.

Income Taxes
Current tax liabilities are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted as at the end of the reporting period.

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

Deferred tax assets are recognized for all deductible temporary differences and the carry-forward of unused tax losses to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax liabilities are recognized for all taxable differences between the tax basis of the liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates expected to apply to the periods when the asset is realized or the liability is settled.

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

Deferred taxes relating to items recognized directly in equity are reported in other comprehensive income and not in the statement of income.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of income. Only changes in deferred tax assets or liabilities that relate to a change in value of asset or liabilities are charged or credited directly to equity.

Retirement Benefit Cost
The Company has a contributory type of retirement benefit plan.

It provides a benefit equal to the total amount standing to the credit of employee which shall consist of the accumulated value of contributions made by the company (5% of monthly salary) including all income thereto, net of administrative fees and expenses. Contributions to the plan are reported in the Statement of Income.

Foreign Currency Transactions and Translations
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (*the functional currency).* The financial statements are presented in Philippine Peso, the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at exchange rates prevailing at the time of transaction. Foreign currency gains and losses resulting from settlement of such transaction and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Related Party Transactions
Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The related party transactions are recognized based on transfer of resources or obligations between related parties, regardless of whether a price is charged.

Provisions
Provisions are recognized when present obligation will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example legal disputes for onerous contract.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at end of the reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligation as a whole. In addition, long term provisions are discounted at their present values, where time value of money is material.

Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent asset, hence, are not recognized in the financial statements.

Contingent Assets and Liabilities
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 disclosed when an inflow of economic benefits is probable.

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

4. Changes in Accounting Standards and Disclosures

New Accounting Standards and Amendments to Existing Standards Effective as of January 1, 2018

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments to PFRS effective beginning January 1, 2018.

PFRS 15, *Revenue from Contract with Customers*. This standard replaces PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company's revenues mainly pertain to the providing internet services which are recognized as the Company renders and completes the performance obligation agreed with the customer, who, in turn, receives and consumes the benefits provided by the Company as it performs the agreed service. The adoption of PFRS 15 has not resulted to changes in the Company's accounting policies; hence, no adjustment is recognized in the financial statements.

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

Amendments to PFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*

The amendments are intended to clarify following:

- Accounting for cash-settled share-based payment transactions that include a performance condition;
- Classification of share-based payment transactions with net settlement features; and
- Accounting for modifications of share-based payment transactions from cash-settled to equity settled

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

The adoption of this amendment did not result in any impact on the financial statements since the Company has no share-based payment transactions.

Amendments to PFRS 4, *Insurance Contracts – Applying PFRS 9 'Financial Instrument' with PFRS 4 'Insurance Contracts'*
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard, before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the 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.

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. The amendments are effective for annual periods beginning on or after July 1, 2018. Retrospective application is only permitted if that is possible without the use of hindsight. The amendments did not result in any impact on the Company's financial statements.

Annual Improvements to PFRSs (2014-2016 cycle)
The Annual Improvements to PFRSs (2014-2016 cycle) are effective for annual periods beginning on or after January 1, 2018 and did not result in any material impact to the Company's financial statements. They include:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*
  The amendment deleted the short-term exemptions in paragraphs E3-E7 of PFRS 1, because they have now served their intended purpose.

- PFRS 12, *Disclosure of Interests in Other Entities*
  The amendment clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10-B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.*

- PAS 28, *Investments in Associates and Joint Ventures*
  The amendment clarified that the election to measure at fair value through profit or loss an investment in associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Philippine IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the interpretation on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The adoption of this interpretation did not result in any significant impact on the financial statements.

New Accounting Standard, Amendments to Existing Standards and Interpretations Effective Subsequent to December 31, 2018
The standards, amendments and interpretations which have been issued but not yet effective as at December 31, 2018 are disclosed below. Except as otherwise indicated, the Company does not expect the adoption of the applicable new and amended PFRS to have a significant impact on its financial position or performance.

PFRS 9, *Financial Instruments*
In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Locally, the SEC adopted IFRS 9 or PFRS 9 on August 17, 2016.

The Company meets the eligibility criteria of the temporary exemption (see below) from PFRS 9 and intends to defer the application of PFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) which becomes effective for periods beginning on or after 1 January 2021

PFRS 16, *Leases*
On January 13, 2016, the IASB issued its new standard, PFRS 16, Leases, which replaces PAS 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating lease or finance leases in accordance with PAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their statement of financial position, 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.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted the new revenue recognition standard. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective application, with options to use certain transition reliefs.

Annual Improvements to PFRSs (2015-2017 cycle)
The Annual Improvements to PFRSs (2015-2017 cycle) are effective for annual periods beginning on or after January 1, 2019 and will not have any material impact to the Company's financial statements. They include:

- PFRS 3, Business Combinations and PFRS 11, Joint Arrangements
  The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- PAS 12, Income Taxes
  The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.

- PAS 23, Borrowing Costs
  The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalization rate on general borrowings.

Amendments to PFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*The amendments cover two issues:

- What financial assets may be measured at amortized cost. The amendment permits more assets to be measured at amortized cost than under the previous version of PFRS 9, in particular some pre-payable financial assets.

- How to account for the modification of a financial liability. The amendment confirms that most such modifications will result in immediate recognition of a gain or loss. This is a change from common practice under PAS 39.

The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The amendments will not have significant impact on the Company's financial statements.

Deferred

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures*
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are originally effective from annual periods beginning on or after January 1, 2016. This mandatory adoption date was later on deferred indefinitely pending the final outcome of the IASB's research project on International Accounting Standards 28. Adoption of these amendments when they become effective will not have any impact on the financial statements.

5. Summary of Significant Accounting Judgments and Estimates

The Company makes estimates and assumptions that affect the reported amounts of the assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
The following judgments were applied which have the most significant effect on the amounts recognized in the financial statements.

Determination of functional currency
The Company has determined that its functional currency is the Philippine peso which is the currency of the primary economic environment in which the Company operates.

Classification of investments
In classifying its investments, the Company follows the guidance of PAS 39. In making the judgment, the Company evaluates its intention, marketability of the instrument and its ability to hold the investments until maturity.

The classifications of investments as at December 31, 2018 and 2017 is as follows:

	2018	2017
Fair value through profit or loss	**P 107,729,950**	P 71,814,629
Available-for-sale	**281,890,501**	327,102,086
Held-to-maturity	**608,322,429**	558,466,331

Distinction between investment properties and owner-occupied properties
The Company determines whether a property qualifies as investment property. If an insignificant portion is leased out under the operating lease, the property is treated as Property and equipment. If the property is not occupied and is held to earn it is treated as Investment property.

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Investment property, as of December 31, 2018 and 2017, amounted to P26,228,000.

Owner-occupied properties, net of accumulated depreciation and impairment losses amounted to P148,409,961 and P151,256,249 in 2018 and 2017,respectively.

Determination of lease arrangements
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.

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. The Company's lease arrangement is of this type.

Rent income amounted to P6,277,238 in 2018 and P6,114,291 in 2017.

Determining the appraised value of investment property and condominium unit
The Company determines the appraised value of its investment property and condominium unit through the use of an independent appraiser.

An appraiser values the property through the use of *market approach*. In this approach, the value of the condominium unit was based on sales and listings of comparable properties registered within the vicinity. The technique of this approach requires adjustments of comparable property by reducing reasonable comparative sales and listings to a common denominator. This was done by establishing the differences between the subject property and those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity of the subject property.

As of December 31, 2018, the appraised value of the Company's Investment property and condominium unit under Property and equipment account amounted to P26,228,000 and P52,332,366, respectively (see Note 12 and 13).

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

Determination of fair value of financial assets and liabilities
The fair value for assets and liabilities traded in active market at the reporting date is based on their quoted market price. For all other assets and liabilities not listed in an active market, the fair value is determined by using appropriate techniques or comparison to similar instruments for which market observable prices exists.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instruments or based on a valuation technique, the Group recognizes the difference between the transaction price and fair value in the statements of income unless it qualifies for recognition as some other type of asset.

Estimating allowance for impairment of financial assets
The Company maintains allowance for probable loss at a level considered adequate to provide for potential uncollectible accounts. The level of allowance for doubtful accounts is evaluated by management on the basis of factors affecting collectability of the financial assets. In addition, a review of the accounts designed to identify accounts to be provided with allowance, is made on a continuing basis.

No provision for impairment of AFS financial asset was recognized in 2018. In 2017 an impairment loss was recognized in the amount of P1,120,000.

Estimating useful lives of property and equipment
The Company reviews annually the estimated useful lives of property and equipment, based on the period on which the assets are expected to be available for use. It is possible that future results of operation 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 decrease the related asset account.

Property and equipment, net of accumulated depreciation and impairment losses, amounted to P148,409,961 and P151,256,249 as at December 31, 2018 and 2017, respectively. (See Note 13).

Deferred tax asset
The Company reviews the carrying amounts of deferred tax asset at each reporting date and reduces the deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax asset as at December 31, 2018 and 2017 amounted to P8,431,994 and P11,272,191. (See Note 29)

Impairment of non-financial asset
The Company assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Several factors are considered which could trigger that impairment has occurred. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have material adverse effect on the results of operations.

No impairment losses were provided for property and equipment and investment property in 2018 and 2017 because management believes that the carrying values approximate their fair value.

Liability for insurance claims
Estimates have to be made both of expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of the claims incurred but not yet reported at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, unreported claims significantly comprise the claims payable presented in the statement of financial position. At each reporting date, prior year’s claims estimates are assessed for adequacy and changes made are charged to statement of comprehensive income at a non-discounted amount for the time value of money.

Insurance claims payable as at December 31, 2018 and 2017 amounted to P80,804,754 and P129,029,680, respectively.

6. Fair Value Measurement

The company measures fair value of assets and liabilities using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1
Inputs are quoted in active market for identical assets or liabilities that the entity can access at the measurement date.

Included in Level 1 category are assets and liabilities that are measured in whole or in part by reference to published quotes in an active market.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2
Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3
Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The table below analyzes assets and liabilities measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

	2018							
		Level 1		Level 2		Level 3		Total
Cash and cash equivalents (including short-term investments)	P	-	P	129,529,046	P	-	P	129,529,046
Financial assets								
FVPL		107,729,950		-		-		107,729,950
AFS		281,440,501		450,000		-		281,890,501
HTM		608,322,429		-		-		608,322,429
Insurance balances receivable								
Direct and assumed accounts		-		8,824,383		-		8,824,383
Reinsurance accounts		-		3,977,473		-		3,977,473
Investment property		-		26,228,000		-		26,228,000
Property and equipment		-		148,409,961		-		148,409,961
Accrued investment income		-		7,016,023		-		7,016,023
Other assets		-		1,643,780		-		1,643,780
	P	997,492,880	P	326,078,666	P	-	P	1,323,571,546
Insurance claims payable	P	-	P	80,804,754	P	-	P	80,804,754
Accounts payable and accrued expenses		-		66,476,059		-		66,476,059
Reinsurance liabilities		-		7,209,078		-		7,209,078
	P	-	P	154,489,891	P	-	P	154,489,891

	2017							
		Level 1		Level 2		Level 3		Total
Cash and cash equivalents								
(including short-term investments)	P	-	P	162,278,251	P	-	P	162,278,251
Financial assets								
FVPL		71,814,629		-		-		71,814,629
AFS		326,652,086		450,000		-		327,102,086
HTM		558,466,331		-		-		558,466,331
Insurance balances receivable								
Direct and assumed accounts		-		12,389,731		-		12,389,731
Reinsurance accounts		-		3,649,274		-		3,649,274
Investment property		-		26,228,000		-		26,228,000
Property and equipment		-		151,256,249		-		151,256,249
Accrued investment income		-		7,133,420		-		7,133,420
Other assets		-		2,575,282		-		2,575,282
	P	956,933,046		365,960,207	P	-	P	1,322,893,253
Other assets								
Insurance claims payable	P	-	P	129,029,680	P	-	P	129,029,680
Accounts payable and								
accrued expenses		-		71,801,278		-		71,801,278
Reinsurance liabilities		-		4,623,687		-		4,623,687
	P	-	P	205,454,645	P	-	P	205,454,645

Fair values were determined as follows:

- *Cash and cash equivalents, short-term investments, FVPL financial assets, receivables, deposits and other financial liabilities* – the fair values are approximately the carrying amounts at initial recognition due to short-term nature.
- *Quoted AFS financial asset (debt and equity securities)* – the fair values were determined from the published references from Philippine Stock Exchange, PDS Group, recommended values of IC or third party information.

- *Non-quoted AFS investment* – valuation technique using significant observable inputs. Where valuation technique is not representative of fair values, the acquisition cost is used as fair value.
- *HTM investment* – fair value was determined from third party information providing reliable information and recognized in the industry.
- *Property and equipment and investment property* – fair value was based on appraiser's report. It is estimated using Market Approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as locations, size and shape of the properties (see Note 5).

7. Management of Insurance Risk, Financial Risk and Capital

<u>*Insurance risk*</u>

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated.

Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Apart from the Company's risk management function, regulators also play a vital role in the insurance industry in ensuring that policy holders and creditors are assured of any claims that may arise within the term of the policy. The Insurance Commission (IC) imposes (i) Risk-based capital framework that will effectively manage the equity requirement of the Company (ii) Margin of solvency which requires an appropriate ratio of admitted assets over admitted liabilities (iii) A mandatory reserve of highly-liquid debt instruments to answer the claims of policyholders and creditors (iv) and minimum statutory net worth to streamline the operation of insurance industry.

Internally, the Company manages its risks through its underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured events. Reinsurance facilities in force include surplus treaties, catastrophe cover and facultative reinsurance.

The concentration of insurance claims as at December 31, 2018 and 2017 is as follows:

	2018				**2017**			
		Share of	**Net**			Share of	Net	
(000 omitted)	**Gross**	**Reinsurer**	**Liability**	**%**	Gross	Reinsurer	Liability	%
Motor car	**P 77,321**	**P -**	**P 77,321**	**96%**	P 125,561	P -	P 125,561	98%
Fire	**785**	**158**	**627**	**1%**	783	158	625	0%
Marine	**387**	**270**	**117**	**0%**	386	270	116	0%
Personal accident	**2,312**	**-**	**2,312**	**3%**	2,300	-	2,300	2%
	P 80,805	**P 428**	**P 80,377**	**100%**	P 129,030	P 428	P 128,602	100%

Valuation Standards for Non-life Insurance Companies

On December 28, 2016, IC issued Circular Letter 2016-67 pertinent to valuation standards for non-life insurance policy reserves. The valuation reserve is premised on the following basic assumptions:

- The valuation of policy reserves shall be based on the Company's actual historical experience and/or industry data. The projection of future claims shall be based on the loss development triangles as well as the information gathered from the underwriting and claims department;
- The valuation is to be conducted by a IC-accredited actuary;
- The reserves shall be composed of premiums and claims liabilities both determined using the best estimate assumption, with an appropriate Margin for Adverse Deviation (MfAD) for expected future experience.
- Premium liabilities for each class of business shall be determined as the higher of Unearned Premium Reserve (UPR), calculated using the 24th method and Unexpired Risk Reserve (URR). URR refers to the amount of reserve required to cover future claims, commission and expenses, at a designated level of confidence, that are expected to emerge from an unexpired period cover.

- Claims liabilities shall be calculated as the sum of outstanding claims reserve, claims handling expense and Incurred But Not Reported (IBNR), with MfAD.

On the same date, IC issued Circular Letter 2016-69 which relaxes the implementation of Circular 2016-67 and allows to set up premium liabilities the UPR instead of the higher of the UPR and URR and MfAD was conditionally set to 50% for the period of 2018 and zero for 2017.

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

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

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

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

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

- Reinsurers' share of insurance premiums,
- Amounts due from reinsurers on claims already paid,
- Amounts due from insurance contract holders, and
- Amounts due from insurance intermediaries.

Exposure
The table below shows the gross maximum exposure to credit risk of the Company as at December 31, 2018 and 2017.

		2018		2017
Cash and cash equivalents				
(including short-term investments)*	**P**	**129,403,046**	P	162,185,251
Financial assets				
FVPL		**107,729,950**		71,814,629
AFS		**281,890,501**		327,102,086
HTM		**608,322,429**		558,466,331
Loans and receivables		**644,648**		644,648
Insurance balance receivable		**8,824,383**		12,389,731
Reinsurance assets		**428,097**		428,097
Accrued investment income		**7,016,023**		7,133,420
Other assets		**1,643,780**		2,575,282
	P	**1,145,902,857**	P	1,142,739,475

**Excludes cash on hand of P126,000 in 2018 and P93,000 in 2017.*

The Company uses the following risk mitigation policies to reduce credit risks:

- Cash in banks and short-term investments are deposited and placed with reputable commercial and universal banks in the Philippines. Moreover, all bank deposits are automatically covered up to a certain amount from Philippine Deposit Insurance Corporation.

- Financial assets that are HTM are debt securities issued and guaranteed by the Philippine government which are considered risk free. HTM investments are lodge under Philippine Depository & Trust Corporation. Furthermore, prior approval from IC is sought before the Company can invest on these securities.

- The Company's equity investments classified as AFS are mostly stocks belonging to Philippine Stock Exchange Index (PSEi) with regular trading transaction in the Philippine Stock Exchange. Other AFS investment includes government securities in foreign currencies and in Investment Management Accounts.

- Insurance balances of brokers and agents have a maximum age of 90 days. Commissions are released only upon full remittance of premiums. Reinsurance arrangements are placed only with reputable reinsurers at industry acceptable terms.

- Accrued investment income is collectible in subsequent period. Interest proceeds are either rolled over to principal balance or credited to savings account.

Credit quality

The credit quality of financial assets is as follows:

	As of December 31, 2018				
	Neither past due nor impaired		Past due		
	High grade	Standard grade	but not impaired	Past due & impaired	Total
Cash and cash equivalents					
(including short-term investments)*	P 113,628,768	P 15,774,278	P -	P -	P 129,403,046
Financial assets					
FVPL	107,729,950	-	-	-	107,729,950
AFS	280,320,501	450,000	-	1,120,000	281,890,501
HTM	608,322,429	-	-	-	608,322,429
Loans and receivables	-	-	-	644,648	644,648
Insurance balances receivable		8,824,383			8,824,383
Reinsurance assets	-	-	428,097	-	428,097
Accrued investment income	7,016,023	-	-	-	7,016,023
Other assets	1,161,338	482,442	-	-	1,643,780
	P 1,118,179,009	P 25,531,103	P 428,097	P 1,764,648	P 1,145,902,857

**Excludes cash on hand of P126,000*

	As of December 31, 2017				
	Neither past due nor impaired		Past due		
	High grade	Standard grade	but not impaired	Past due & impaired	Total
Cash and cash equivalents (including short-term investments)*	P 154,307,890	P 7,877,361	P -	P -	P 162,185,251
Financial assets					
FVPL	71,814,629	-	-	-	71,814,629
AFS	325,532,086	450,000	-	1,120,000	327,102,086
HTM	558,466,331	-	-	-	558,466,331
Loans and receivables	-	-	-	644,648	644,648
Insurance balances receivable		12,389,731			12,389,731
Reinsurance assets	-	-	428,097	-	428,097
Accrued investment income	7,133,420	-	-	-	7,133,420
Other assets	1,283,768	1,291,514	-	-	2,575,282
	P 1,118,538,124	P 22,008,606	P 428,097	P 1,764,648	P 1,142,739,475

**Excludes cash on hand of P93,000*

The following table discusses the methodologies that the Company used to grade financial assets:

Financial asset	Investment grade	Measurement basis
Cash and cash equivalents and Short-term investments	High grade	Cash deposits with universal and commercial banks in the Philippines
	Standard grade	Cash deposits that are not classified as high grade accounts.
Debt securities	High grade	Debt securities issued by the Philippine government which are considered risk free. Debt securities that are issued by private corporations that possesses the capacity to meet financial obligation.
	Standard grade	Debt securities that are not classified as High grade securities.
Equity securities	High grade	Listed equity securities belonging to PSEi
	Standard grade	Equity securities not belonging to PSEi
Insurance and reinsurance accounts and deposits	High grade	The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits
	Standard grade	Standard grade accounts are active accounts with propensity of deteriorating to mid-range age buckets. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

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

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

Contractual maturities of financial assets and liabilities as at December 31, 2018 and 2017 are presented below:

	Contractual maturities			
2018 (In thousand)	**< 1 year**	**> 1 year < 5 years**	**>5 years**	**Total**
Financial assets that are :				
Cash and cash equivalents				
(including short-term investments)*	**P 129,403**	**P -**	**P -**	**P 129,403**
FVPL	**107,730**	**-**	**-**	**107,730**
AFS (excluding equity securities)	**5,405**	-	-	**5,405**
HTM	**49,872**	**407,892**	**150,558**	**608,322**
Insurance balances receivable	**8,824**	**-**	**-**	**8,824**
Reinsurance assets	**428**	**-**	**-**	**428**
Accrued investment income	**7,016**	**-**	**-**	**7,016**
Advance to employees	**938**	**-**	**-**	**938**
Deposits	**93**	**-**	**-**	**93**
Financial liabilities:				
Insurance claims payable	**80,805**	**-**	**-**	**80,805**
Accounts payable and accrued expenses	**66,476**	**-**	**-**	**66,476**
Reinsurance liabilities	**7,209**	**-**	**-**	**7,209**

	Contractual maturities			
2017 (In thousand)	< 1 year	> 1 year < 5 years	>5 years	Total
Financial assets that are :				
Cash and cash equivalents				
(including short-term investments)*	P 162,185	P -	P -	P 162,185
FVPL	71,815	-	-	71,815
AFS (excluding equity securities)	5,460	-	-	5,460
HTM	12,016	362,892	183,558	558,466
Insurance balances receivable	12,390	-	-	12,390
Reinsurance assets	428	-	-	428
Accrued investment income	7,133	-	-	7,133
Advance to employees	680	-	-	680
Deposits	127	-	-	127
Financial liabilities:				
Insurance claims payable	129,030	-	-	129,030
Accounts payable	-			
and accrued expenses	71,801	-	-	71,801
Reinsurance liabilities	4,624	-	-	4,624

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

Market Risk

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

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

The Company manages market risk by evenly distributing capital among investment instruments, sectors and geographical areas.

The Company structures the levels of market risk it accepts through a sound market risk policy based on specific guidelines. This policy constitutes certain limits on exposure of investments mostly with top-rated banks, which are selected on the basis of the bank's credit ratings, capitalization and quality servicing being rendered to the Company. Also, the said policy includes diversification benchmarks of investment portfolio to different investment types duly approved by the IC, asset allocation reporting and portfolio limit structure. Moreover, control of relevant market risks can be addressed through compliance reporting of market risk exposures to the IC, regular monitoring and review of the Company's investment performance and upcoming investment opportunities for pertinence and changing environment.

Sensitivity analysis of market risk exposures follows:

i. Currency risk

Foreign currency risk pertains to US$ denominated cash, special savings accounts and AFS investments. No foreign currency forward contracts are outstanding as at December 31, 2018 and 2017 to hedge the foreign currency accounts.

The carrying values of financial assets exposed to currency risk at the end of reporting period are as follows:

	2018				2017			
	Phil. Peso		**US $**		Phil. Peso		US $	
Cash and cash equivalents (including short-term investments)*	**P**	**7,999,524**	**$**	**152,140**	P	20,713,623	$	414,911
AFS investments		**5,405,329**		**102,802**		5,460,503		109,379
Accrued investment income		**128,029**		**2,435**		125,371		2,511
	P	**13,532,882**	**$**	**257,377**	P	26,299,497	$	526,801

The following table demonstrates the sensitivity to a reasonable change in the US$ exchange rate, with all other variables held constant, of the Company's income before tax and equity:

Increase/Decrease in Peso to US Dollar Rate		Effect on income before taxes	Effect on equity
+2	**2018**	**+ 0.21 million**	**+ 0.42 million**
-2		**- 0.21 million**	**- 0.42 million**
+2	2017	+ 0.58 million	+ 0.80 million
-2		- 0.58 million	- 0.80 million

ii. Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The management of interest rate risk involves maintenance of appropriate blend of financial instruments with consideration on the maturity profile of the security. Exposures to interest rate risk comprise the following:

		As of December 31, 2018		
		Due in		
	Interest rate	**< 1 year**	**> 1 year but <5 years**	**> 5 years**
Financial assets that are:				
Cash and cash equivalents				
(including short-term investments)*	**.25% - 6.5%**	**P 129,403,046**	**P -**	**P -**
FVPL	**3.31% - 6.59%**	**107,729,950**	**-**	**-**
HTM	**3.25% - 15%**	**49,872,441**	**407,891,732**	**150,558,256**

		As of December 31, 2017		
		Due in		
	Interest rate	< 1 year	> 1 year but <5 years	> 5 years
Financial assets that are:				
Cash and cash equivalents				
(including short-term investments)*	.25% - 6.5%	P 162,185,251	P -	P -
FVPL	2.276% - 2.995%	71,814,629	-	-
HTM	3.125% - 15%	12,016,277	362,891,798	183,558,256

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate investments). There is no other impact on the Company's equity other than those already affecting the profit and loss.

	Increase/ decrease in basis points	Effect on income before income tax
2018	**+ 200**	**P 16,407,418**
	- 200	**(16,407,418)**
2017	+ 200	P 14,853,182
	- 200	(14,853,182)

iii. Price risk

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors movements of equity price on a monthly basis by assessing the expected changes in the different portfolio due to parallel movements of a 10% increase or decrease in the Philippine stock exchange index (PSEi).

With all other variables held constant, a 10% movement in the stock exchange would result in an impact on equity of P11.57 million in 2018 and P11.56 million in 2017. This does not affect income since changes in fair value of AFS investments are taken to equity.

iv. Operational risk

Operational risk is the risk of loss from system failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risk but initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage risk. Controls include effective segregation of duties, access controls, authorization and reconciliation procedures, staff education and assessment processes. Business risk such as changes in environment, technology and industry are monitored through the Company's strategic planning and budgeting processes.

Capital management

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities and externally imposed capital requirements.

The company regards the following as the capital it manages as at December 31, 2018 and 2017.

	2018	2017
Share capital	**P 250,000,000**	P 250,000,000
Contrubuted surplus	**33,000**	33,000
Retained earnings	**714,388,362**	634,075,947
	P 964,421,362	P 884,108,947

Net worth Requirement

Externally imposed capital requirements are set and regulated by the Insurance Commission (IC). The requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximize shareholders value.

Pursuant to IC Circular No. 2015-02-A, dated January 13, 2015 issued on the basis of Republic Act 10607 known as the Revised Insurance code, domestic insurance companies under the supervision of IC must have a net worth of at least P250 million by December 31, 2013. The minimum net worth of a particular company shall remain unimpaired at all times and shall increase to the amounts as follows:

Minimum networth	Compliance date
P 550,000,000	December 31, 2016
900,000,000	December 31, 2019
1,300,000,000	December 31, 2022

Insurance Memorandum Circular 22-2008 further clarified that the paid-up capital should remain intact and unimpaired at all times, the statements of financial position should show that the networth is at least equal to the actual paid up capital.

As at December 31, 2018 and 2017, the Company is in compliance with the required minimum paid-up capital. The statutory net worth is based on Regulatory Accounting Policies and may be determined only after the accounts of the Company have been examined by the IC.

Risk-based Capital Requirement
Insurance Memorandum Circular (IMC) 7-2006 provides for the risk-based capital (RBC) framework for the non-life insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risk. Every non-life insurance companies are annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the Company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio is calculated as Net worth divided by the RBC requirement. Net worth shall include the (i) paid-up capital, (ii) other capital surplus and (iii) Special surplus funds to the extent authorized by IC.

Internal calculations of RBC ratio as at December 31, 2018 and 2017 revealed the following:

	2018	2017
Networth	**P 1,061,303,011**	P 1,010,241,920
RBC requirement	**123,225,138**	104,471,016
RBC ratio	**861%**	967%

Companies not meeting the required RBC ratio will be subjected to an Action Event depending on level the RBC ratio as follows:

- Regulatory Action Event – the RBC is less than 75% but not below 50%, the Company will be required an RBC plan within 45 days;
- Authorized Control Event –the RBC is less than 50% but not below 35%, the IC will be authorized to place the Company under regulatory control
- Mandatory Control Event – the RBC is less than 35%, the IC is required to place Company under regulatory control

The computation of RBC is based on the regulatory accounting policy in accordance the Philippine Insurance Code. The RBC can be determined only after the accounts of the Company have been examined by the IC.

8. Cash and Cash Equivalents and Short-term investments

This account consists of:

		2018		2017
Cash on hand	**P**	**126,000**	P	93,000
Cash in banks		**25,084,544**		49,807,104
Short-term bank placements		**25,600,000**		26,000,000
Cash and cash equivalents	**P**	**50,810,544**	P	75,900,104
Short-term investments	**P**	**78,718,502**	P	86,378,147

Cash in bank and short-term bank deposits earn interest at prevailing bank interest rates. Interest income earned on these deposits amounted to P2,314,248 in 2018 and P1,982,953 in 2017. (See Note 24)

Short-term investments are placed for a period of more than 3 months but not more than 12 months. These investments earn interest at the rate of 1.25% to 3% in 2018 and 1.25% to 2.375% in 2017.

9. Financial assets

The reconciliation of the carrying amounts of financial assets at the beginning and end of the year is as follows:

	As of December 31, 2018				
	FVPL	AFS	HTM	Loans & receivable	Total
Gross carrying value					
Balance at the beginning of year	**P 71,814,629**	**P 328,222,086**	**P 558,466,331**	**P 644,648**	**P 959,147,694**
Additions	**107,729,950**	**75,275,460**	**65,800,000**	**-**	**248,805,410**
Disposal/Maturity	**(71,814,629)**	**(93,629,680)**	**(15,716,276)**	**-**	**(181,160,585)**
Amortization of premium	**-**	**-**	**(227,626)**	**-**	**(227,626)**
Changes in fair value	**-**	**(26,857,365)**	**-**	**-**	**(26,857,365)**
Balance at the end of the year	**107,729,950**	**283,010,501**	**608,322,429**	**644,648**	**999,707,528**
Provision for impairment losses	**-**	**(1,120,000)**	**-**	**(644,648)**	**(1,764,648)**
	P 107,729,950	**P 281,890,501**	**P 608,322,429**	**P -**	**P 997,942,880**

	As of December 31, 2017				
	FVPL	AFS	HTM	Loans & receivable	Total
Gross carrying value					
Balance at the beginning of year	P 54,227,784	P 378,978,858	P 442,525,720	P 644,648	P 876,377,010
Additions	72,800,228	74,839,373	149,235,247	-	296,874,848
Disposal/Maturity	(55,213,383)	(147,450,575)	(33,000,000)	-	(235,663,958)
Amortization of premium	-	-	(294,636)	-	(294,636)
Changes in:					
fair value	-	21,071,032	-	-	21,071,032
exchange rates	-	783,398	-	-	783,398
Balance at the end of the year	71,814,629	328,222,086	558,466,331	644,648	959,147,694
Provision for impairment losses	-	(1,120,000)	-	(644,648)	(1,764,648)
	P 71,814,629	P 327,102,086	P 558,466,331	P -	P 957,383,046

Fair value through Profit or Loss (FVPL) Investments

Investments that are designated at FVPL represent Treasury Bills (TBills) issued by the Philippine Government with interest rates ranging from 3.31% to 6.59% and 2.276% to 2.995% per annum for the year 2018 and 2017, respectively. TBills comprise a portfolio of financial instruments that are manage together for which there is an evidence of recent actual pattern of short-term profit-taking. As December 31, 2018 and 2017 the total face value of Tbills which are due within 12 months amounted to P112 million and 73.45 million, respectively. Due to its relatively short-term nature, the carrying value amounting to P107.7 million in 2018 and to P71.8 million in 2017 approximates the fair value at year-end.

Mark to market gain on this investment amounted to P2,693,141 in 2018 and P1,348,045 in 2017. (See Note 24)

Available-for-sale (AFS) Investments

Investments categorized as AFS includes listed and unlisted equity securities, government securities, investment management funds and unitized investments. These investments are carried at fair values determined using the quoted market prices categorized as level 1 in the fair value hierarchy. Fair value sources are discussed in Note 6. Unquoted equity securities are carried at cost less allowance for impairment due to the lack of a reliable estimate necessary to calculate fair value.

The breakdown of this account is as follows:

		2018		2017
Listed equity securities				
Common shares	P	**56,369,609**	P	53,835,207
Preferred Shares		**59,478,425**		61,975,505
Proprietary membership shares		**570,000**		450,000
Foreign currency government securities		**5,405,329**		5,460,503
Unit Investment Trust Funds		**82,873,842**		120,221,658
Investment management funds		**77,193,296**		85,159,213
	P	**281,890,501**	P	327,102,086

Realized gains on these investments reported in the statements of income are as follows:

		2018		2017
Interest	P	**3,452,684**	P	5,761,015
Dividends		**9,663,296**		10,802,531

The reconciliation of unrealized fair value gains (losses) on AFS investments are as follows:

		2018		2017
Balance at beginning of year	P	**16,610,119**	P	(5,548,591)
Fair value gains(losses) taken to:				
Other comprehensive income (OCI)		**(27,309,518)**		22,158,710
Balance at end of year	P	**(10,699,399)**	P	16,610,119

Fair value gains (losses) reported in OCI is net of deferred income tax of P780,588 in 2018 and P619,054 in 2017. (See Note 29)

Held-to-Maturity (HTM) Investments

Investments classified as HTM are as follows:

		2018		2017
Government securities				
Fixed-rate treasury notes (FXTN)	P	**294,132,429**	P	282,376,331
Corporate debts and bonds		**314,190,000**		276,090,000
	P	**608,322,429**	P	558,466,331

The FXTN carries interest ranging from 3.250% to 15% for a maximum term of 25 years. Portion of these FXTN totaling P137.9 million in 2018 and P108.9 million in 2017 are deposited with the Insurance Commission in accordance with the provision of the Insurance Code as security for the benefit of the policyholders and creditors of the Company.

Corporate debts and bonds issued by various private corporations are for period ranging from 5 years to 15 years from original issue. These securities are subject to a periodic interest rate of 3.80% to 6.94%.

Interest earned on HTM investments amounted to P30,288,718 in 2018 and P22,991,968 in 2017. (See Note 24)

The maturity profile of this account is presented below:

Due in:		**2018**		2017
One year	**P**	**49,872,441**	P	12,016,277
More than one year but less than five years		**407,891,732**		362,891,798
Beyond five years		**150,558,256**		183,558,256
	P	**608,322,429**	P	558,466,331

Pursuant to Section 209 of the Insurance Code, at least 25% of minimum statutory net worth required under Section 194 of the Code must be invested in securities consisting of bonds or other debt instruments issued by the Philippine Government or its instrumentalities. The invested funds shall at all times be maintained free from any lien or encumbrance and shall be deposited with and held by IC for the faithful performance of the Company's obligations under its insurance contracts. This requirement was fully complied by the Company as of December 31, 2018 and 2017.

Loans and receivable

Loans and receivable represents amounts due from third party made in prior years. Due to the inability of the debtor to settle the obligation, a full allowance of P644,648 for impairment losses was provided thereon in previous years.

10. Insurance balances receivable

The breakdown of this account is as follows:

		2018	2017
Due from agents and brokers	**P**	**6,442,980**	P 10,702,513
Due from ceding companies		**1,270,149**	597,094
Funds held by ceding companies		**1,111,254**	1,090,124
	P	**8,824,383**	P 12,389,731

Due from brokers and agents have an average terms of 1-3 months.

Due from ceding companies have an average term of 30 to 90 days. Funds held by ceding companies represent portion of the premium withheld by ceding companies in accordance with reinsurance agreements.

There is no concentration of credit risk with respect to insurance receivables, as the Company has a diverse base of agents, brokers and reinsurers.

Management believes that the carrying values disclosed above are reasonable approximates of their fair values.

11. Reinsurance assets

This account consists of:

		2018		2017
Reserve for reinsurance premium *(see Note 17)*	**P**	**3,549,376**	P	3,221,177
Reinsurance recoverable on unpaid losses *(see Note 18)*		**428,097**		428,097
	P	**3,977,473**	P	3,649,274

As at December 31 2018 and 2017, management believes that reinsurance assets are fully recoverable and that no impairment loss is necessary.

12. Investment property

As of December 31, 2018 and 2017, investment property consists of Condominium unit:

Condominium unit represents the ownership of Unit 2401 of 88 Corporate, Sedeno St Corner Valero St, Salcedo Village, Makati City, Metro Manila, with a net leasable area of approximately 220.25 square meters and two (2) parking units (4P21 and 4P22) in the 88 Corporate Center.

On October 4, 2017, the Company's investment property was appraised by an independent firm of appraiser .The appraisal resulted to the recognition of unrealized gain on fair value adjustment of investment property of P24,946,936. Fair value is determined using the Market approach under the level 3 of the fair value hierarchy. The highest and best use of these properties is commercial, its current use.

The movement of investment property as of December 31, 2018 and 2017 is as follows:

		2018		2017
Balance, January 1	**P**	**26,228,000**	P	13,302,715
Accumulated depreciation				
January 1		**-**		11,522,800
Depreciation expense (Jan. - Oct. 2017)		**-**		498,851
Balance, December 31				1,281,064
Add: Fair value gain		**-**		24,946,936
Fair value	**P**	**26,228,000**	P	26,228,000

The description of valuation techniques and inputs used in determining the fair value of investment properties classified as Level 3.

Location	Type	Valuation Techniques	Signification observable inputs	Fair value heirarchy	Range
88 Coporate Center	Condominium	Market Approach	Selling price (per square meter)	Level 3	93,939-127,505
	Unit		Time		10%
			Size		-10%
			Location		-5% to 10%
			Improvement		10%
			Ameneties		-5% to 10%
			Bargaining Allowance		-10% to -5%

The property has been measured at fair value; it should continue to be measured at fair value until disposal.

The Company's investment property is leased out to a third party under terms and conditions mutually agreed upon by the Company and the tenant. Rental income on these properties amounted to P2,376,411 in 2018 and P1,768,476 in 2017. Direct cost relating to the lease excluding depreciation expense amounted to P207,436 in 2018 and P158,718 in 2017.

13. Property and equipment - net

The breakdown of this account is as follows:

2018		**Land***		**Building & condominium units***		**Furniture, fixtures & office equipment**		**Transportation equipment**	**Total**
Costs									
At January 1, 2018	**P**	**93,243,800**	**P**	**74,566,972**	**P**	**14,607,856**	**P**	**26,824,205**	**P 209,242,833**
Additions		**-**		**-**		**485,210**		**-**	**485,210**
Disposal		**-**		**-**		**-**		**-**	**-**
At December 31, 2018		**93,243,800**		**74,566,972**		**15,093,066**		**26,824,205**	**209,728,043**
Accumulated depreciation and									
and impairment losses									
At January 1, 2018		**17,800**		**20,168,855**		**12,153,455**		**25,646,474**	**57,986,584**
Provisions		**-**		**2,065,751**		**863,876**		**401,871**	**3,331,498**
At December 31, 2018		**17,800**		**22,234,606**		**13,017,331**		**26,048,345**	**61,318,082**
Net Carrying Value									
At December 31, 2018	**P**	**93,226,000**	**P**	**52,332,366**	**P**	**2,075,735**	**P**	**775,860**	**P 148,409,961**

**At appraised value*

2017		Land*		Building & condominium units		Furniture, fixtures & office equipment		Transportation equipment	Total
Costs									
At January 1, 2017	P	93,243,800	P	19,652,417	P	14,040,889	P	26,824,205	P 153,761,311
Additions		-		-		566,967		-	566,967
Disposal		-		-		-		-	-
Revaluation		-		54,914,555		-		-	54,914,555
At December 31, 2017		93,243,800		74,566,972		14,607,856		26,824,205	209,242,833
Accumulated depreciation and									
and impairment losses									
At January 1, 2017		17,800		19,652,417		11,269,605		24,843,643	55,783,465
Provisions		-		516,438		883,850		802,831	2,203,119
At December 31, 2017		17,800		20,168,855		12,153,455		25,646,474	57,986,584
Net Carrying Value									
At December 31, 2017	P	93,226,000	P	54,398,117	P	2,454,401	P	1,177,732	P 151,256,249

**At appraised value*

Land and buildings are used as branch offices and portion of these buildings are also being leased out to Third parties under operating leases. Rental income on these properties amounted to P3, 900,827 in 2018 and to P4,345,815 in 2017.

Depreciation of property and equipment charged to operations amounted to P3,331,498 in 2018 and P2,203,119 in 2017.

The fair value of the land was based on the report issued by an independent firm of appraisers on December 31, 2007 and the fair value of the building was based on the report by an independent firm of appraiser on October 4, 2017. The assigned value for land and building was estimated using the Market Approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as locations, size and shape of the properties.

Had the land been carried at cost, its carrying amount would amount to P9,813,681 in 2018 and 2017.

14. Deferred acquisition costs (DAC) and Deferred commission income (DCI)

Movements of this account during the year are as follows:

2018		**Deferred commision expense**		**Deferred commision income**		**Net DAC**
Balances, beginning	**P**	**28,052,906**	**P**	**895,390**	**P**	**27,157,516**
Net changes in acquisition cost		**(6,477,164)**		**741,160**		**(7,218,324)**
	P	**21,575,742**	**P**	**1,636,550**	**P**	**19,939,192**

2017		Deferred commision expense		Deferred commision income		Net DAC
Balances, beginning	P	31,777,647	P	1,635,171	P	30,142,476
Net changes in acquisition cost		(3,724,741)		(739,781)		(2,984,960)
	P	28,052,906	P	895,390	P	27,157,516

As at December 31 2018 and 2017, management believes that DAC are fully recoverable and that no impairment loss is necessary.

15. Accrued investment income

The sources of this account are as follows:

		2018		2017
Cash and cash equivalents	**P**	**347,852**	P	357,780
Government securities and other debt instruments		**6,246,499**		6,138,929
Short-term investment		**421,672**		636,711
	P	**7,016,023**	P	7,133,420

16. Other assets

This account consists of:

		2018		2017
Advances to employees	**P**	**938,049**	P	679,782
Deposits and others		**565,564**		1,755,332
Security fund		**140,167**		140,167
	P	**1,643,780**	P	2,575,281

Advances to employees are cash advances made by the employees to defray their personal expenses.

Deposits, which are carried at cost, are made to secure leasing arrangements and utility services.

Security fund was created under Section 365 of Presidential Decree (PD) No. 612 as amended under PD No. 1640, to be used for payment of claims against insolvent insurance companies. The balances of the fund represent the Company's contribution to the fund. The balance of the fund earns interest at rates determined by the IC annually.

17. Reserve for unearned premiums

The analysis of this account is as follows:

	2018			2017		
	Direct business	**Ceded**	**Net**	Direct business	Ceded	Net
Balances, Janaury 1	**P 106,563,903**	**P 3,221,177**	**P 103,342,726**	P 131,148,546	P 5,390,743	P 125,757,803
Policies written during the year	**243,439,277**	**2,564,532**	**240,874,745**	260,207,806	2,642,861	257,564,945
Premiums earned during the year	**(252,016,514)**	**(2,236,333)**	**(249,780,181)**	(284,792,449)	(4,812,427)	(279,980,022)
	P 97,986,666	**P 3,549,376**	**P 94,437,290**	P 106,563,903	P 3,221,177	P 103,342,726

In accordance with IC circular 2016-67, Premium liabilities for each class of business shall be determined as the higher of Unearned Premium Reserve (UPR) and Unexpired Risk Reserve (URR). UPR is calculated using the 24th method for all classes of business, on a gross of reinsurance basis. URR is calculated as the best estimate of future obligation, expenses for policy management and claims settlement cost. URR may be estimated as the unearned premium for each class of business multiplied by ultimate loss ratio and adjusted for future expenses.

The actuarial valuation result for premium liabilities for the year ended December 31, 2018 and 2017 is as follows:

	Gross	
	2018	2017
UPR	**P 97,986,666**	P 106,563,903
URR		
Best estimate of future obligation	**P 26,214,335**	P 46,094,322
Maintenance expenses	**23,609,322**	8,517,977
Claims handling expense	**4,721,865**	2,559,458
Margin for adverse deviation	**16,158,183**	15,409,226
	P 70,703,705	P 72,580,983
Premium Liability (whichever is higher)	**P 97,986,666**	P 106,563,903

18. Insurance claims payable

Outstanding claims will become payable and materialize into claims paid when the amounts of insured losses suffered by policyholders were ascertained and agreed, without any contractual maturity date. The timing of future cash outflow arising from the provision is not ascertainable but is likely to fall within 3 years.

The provision is sensitive to many factors such as interpretation of circumstances, judicial decisions, economic conditions, climatic changes and is subject to uncertainties such as:

- Uncertain as to whether an event has occurred which would give rise to a policyholder suffering an insured loss:
- Uncertainty as to the extent of policy coverage and limits applicable; and
- Uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring.

The analysis of this account is shown below:

	2018						2017					
		Gross		Reinsurance		Net		Gross		Reinsurance		Net
Balances, January 1	**P**	**129,029,680**	**P**	**428,097**	**P**	**128,601,583**	P	114,560,118	P	428,097	P	114,132,021
Claims and losses incurred - net of recoveries		**109,245,944**		**428,097**		**108,817,847**		96,763,567		428,097		96,335,470
Provision for incurred but not reported claims		**(25,432,938)**		**891,261**		**(26,324,199)**		35,791,520		1,312,625		34,478,895
Claims and losses paid - net of recoveries		**(132,037,932)**		**(1,319,358)**		**(130,718,574)**		(118,085,525)		(1,740,722)		(116,344,803)
	P	**80,804,754**	**P**	**428,097**	**P**	**80,376,657**	P	129,029,680	P	428,097	P	128,601,583

In accordance with IC circular 2016-67, claims liabilities for both direct business, assumed treaty and reinsurance business shall be calculated as the sum of outstanding claims reserve, claims handling expense and IBNR.

Claims handling expense was computed on a net insurance basis using the Kittle's Refinement to the Classical Paid-to-Paid Ratio Method that explicitly recognized that claims handling expense is incurred as claims are reported, even if no loss payments are made.

Outstanding claims reserve shall be based on actual claims reported but have not yet been settled at year-end. IBNR is calculated based on the following methods:

1. Chain Ladder or Loss-Development Triangles Method
2. Bornhuetter-Ferguson Method
3. Expected Los Ratio Method

MfAD is included to allow the inherent uncertainty of the best estimate of the policy reserves and to consider the variability of claims experience with a class of business, the diversification between classes of business and conservatism in the best estimate. As of December 31, 2018, MfAD is set to 50% and 0% for the year ended December 31, 2018 and 2017, respectively.

The actuarial valuation result for Claims liabilities for the year ended December 31, 2018 and 2017 is as follows:

	Gross			
		2018		2017
Outstanding claims reserve	**P**	**65,466,945**	P	92,532,165
Claims handling expense		**1,674,843**		4,231,401
IBNR		**13,662,966**		32,266,114
	P	**80,804,754**	P	129,029,680

	Net of Reinsurance			
		2018		2017
Outstanding claims reserve	**P**	**65,038,848**	P	93,416,693
Claims handling expense		**1,674,843**		4,231,401
IBNR		**13,662,966**		30,953,489
	P	**80,376,657**	P	128,601,583

19. Accounts payable and accrued expenses

This account consists of:

		2018		2017
Taxes payable	**P**	**45,225,185**	P	42,306,558
Accrued and other liabilities		**6,828,511**		20,042,384
Commissions payable		**14,422,363**		9,452,334
	P	**66,476,059**	P	71,801,276

The terms and conditions of these accounts are as follows:

- Accrued expenses are liabilities for utilities and services that have been provided with payment terms of 30-90 days.
- Taxes payable consisting of documentary stamp tax, output tax, premium tax and other taxes are usually paid and remitted on the following month.
- Commissions payable are liabilities to brokers and agents for uncollected premiums. The amounts are settled within 12 months.

Management believes that the carrying amounts are the reasonable approximation of their fair values as at December 31, 2018 and 2017.

20. Reinsurance liabilities

The movements of this account are as follows:

	As of Decemebr 31, 2018					
		Due to reinsurers		**Funds held for reinsurers**		**Total**
Balance at the beginning	**P**	**1,671,306**	**P**	**2,952,381**	**P**	**4,623,687**
Additions		**6,526,712**		**2,867,258**		**9,393,970**
Reductions		**(3,890,771)**		**(2,917,808)**		**(6,808,579)**
Balance at the end of year	**P**	**4,307,247**	**P**	**2,901,831**	**P**	**7,209,078**

	As of Decemebr 31, 2017					
		Due to reinsurers		Funds held for reinsurers		Total
Balance at the beginning	P	1,097,038	P	3,489,115	P	4,586,153
Additions		6,506,338		3,658,637		10,164,975
Reductions		(5,932,070)		(4,195,371)		(10,127,441)
Balance at the end of year	P	1,671,306	P	2,952,381	P	4,623,687

21. Equity

Share Capital
The Company's capital structure as at December 31, 2018 and 2017 is as follows:

	Shares	Amount
Authorized - P1 par value per share	320,000,000	P 320,000,000
Issued and outstanding	250,000,000	250,000,000

As at December 31, 2018 and 2017, the Company has 16 stockholders owning 100 or more shares each.

22. Insurance Contracts – Terms, Assumption and Sensitivities

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

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

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

The measurement process primarily includes projections of future claims through the use of historical experience statistics. In certain cases, where there is a lack of reliable historical data on which to estimate claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analyzed by geographical area and class of business. In addition, claims are usually assessed by loss adjusters.

Assumptions
The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, 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, climatic changes and government legislation affect the estimates. Other key assumptions include variation in interest and delays in settlement.

Sensitivities
The general insurance claims provision is sensitive to the above key assumptions. The sensitivity to certain variables such as legislative change and uncertainty in the estimation process is impossible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provisions are not known with certainty at reporting date. Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessments of the ultimate liabilities are recognized in subsequent financial statements.

Since certain proportional reinsurance facilities are in place, the Company's net exposure is minimal. The Company considers that the liability recognized in the statement of financial position is adequate. However, actual experience will differ from the expected outcome. Sensitivity test are set out below, showing the impact on profit and loss and equity.

% change in loss ratio	Impact on income				Impact on equity			
		2018		2017		**2018**		2017
+5%	**P**	**4,130,273**	P	6,558,588	**P**	**2,891,191**	P	4,591,012
-5%		**(4,130,273)**		(6,558,588)		**(2,891,191)**		(4,591,012)

Loss development table

Loss development table for the year 2018 and 2017, gross and net of reinsurer's share is as follows:

Gross Losses and Claims Payable for 2018

Accident year	One year later	Two years later	Three years later	Four years later	Five years later	Six years later	Seven years later	Eight years later	Nine years later	Ten Years later	Current estimate of cumulative claims
2009	P 78,235	P 93,542	P 51,025	P 50,780	P 50,909	P 50,612	P 50,612	P 50,612	P 50,612	P 50,612	50,612
2010	90,942	77,096	74,704	74,783	74,643	74,653	75,353	75,253	75,113		75,113
2011	103,767	107,512	105,943	105,608	107,020	105,287	105,287	105,182			105,182
2012	147,299	136,164	130,956	130,557	130,692	130,692	130,692				130,692
2013	137,548	141,271	122,221	122,691	122,791	122,529					122,529
2014	139,185	102,705	105,859	105,788	103,664						103,664
2015	172,952	135,260	132,743	127,188							127,188
2016	167,779	188,341	126,166								126,166
2017	75,448	95,139									95,139
2018	95,298										95,298
Total	P 95,298	P 95,139	P 126,166	P 127,188	P 103,664	P 122,529	P 130,692	P 105,182	P 75,113	P 50,612	1,031,583
Provision for IBNR	(10,174)	31,184	5,314								26,324
Cumulative payments to date	(61,144)	(92,242)	(111,322)	(126,341)	(102,660)	(121,794)	(130,692)	(105,182)	(75,113)	(50,612)	(977,102)
Liability recognized in the statement of financial position	P 23,980	P 34,081	P 20,158	P 847	P 1,004	P 735	P -	P -	P -	P -	P 80,805

Net Losses Claims Payable for 2018

Accident year	One year later	Two years later	Three years later	Four years later	Five years later	Six years later	Seven years later	Eight years later	Nine years later	Ten Years later	Current estimate of cumulative claims
2009	P 71,622	P 87,845	P 45,328	P 45,083	P 45,212	P 44,915	P 44,915	P 44,915	P 44,915	P 44,915	44,915
2010	89,344	76,323	73,932	74,011	73,870	73,880	74,511	74,411	74,271		74,271
2011	102,076	105,351	103,781	103,478	104,890	103,897	103,897	103,792			103,792
2012	127,121	112,736	107,528	107,129	107,045	107,045	107,045				107,045
2013	135,884	137,506	116,652	117,055	117,155	116,892					116,892
2014	138,028	101,537	104,150	104,078	101,955						101,955
2015	171,980	132,750	130,233	124,678							124,678
2016	167,464	188,026	125,851								125,851
2017	72,604	92,294									92,294
2018	95,298										95,298
Total	P 95,298	P 92,294	P 125,851	P 124,678	P 101,955	P 116,892	P 107,045	P 103,792	P 74,271	P 44,915	986,991
Provision for IBNR	(10,174)	31,184	5,314								26,324
Cumulative payments to date	(61,144)	(89,397)	(111,007)	(123,989)	(101,221)	(116,157)	(107,045)	(103,792)	(74,271)	(44,915)	(932,938)
Liability recognized in the statement of financial position	P 23,980	P 34,081	P 20,158	P 689	P 734	P 735	P -	P -	P -	P -	P 80,377

Gross Losses and Claims Payable for 2017

Accident year	One year later	Two years later	Three years later	Four years later	Five years later	Six years later	Seven years later	Eight years later	Nine years later	Current estimate of cumulative claims
2009	P 78,235	P 93,542	P 51,025	P 50,780	P 50,909	P 50,612	P 50,612	P 50,612	P 50,612	50,612
2010	90,942	77,096	74,704	74,783	74,643	74,653	75,353	75,253		75,253
2011	103,767	107,512	105,943	105,608	107,020	105,287	105,287			105,287
2012	147,299	136,164	130,956	130,557	130,692	130,692				130,692
2013	137,548	141,271	122,221	122,691	122,791					122,791
2014	139,185	102,705	105,859	105,788						105,788
2015	172,952	135,260	132,743							132,743
2016	167,779	188,341								188,341
2017	75,448									75,448
Total	P 75,448	P 188,341	P 132,743	P 105,788	P 122,791	P 130,692	P 105,287	P 75,253	P 50,612	986,955
Provision for IBNR	31,184	5,314								36,498
Cumulative payments to date	(71,245)	(110,784)	(126,341)	(102,660)	(121,794)	(130,692)	(105,182)	(75,113)	(50,612)	(894,423)
Liability recognized in the statement of financial position	P 35,387	P 82,871	P 6,402	P 3,128	P 997	P -	P 105	P 140	P -	P 129,030

Net Losses Claims Payable for 2017

Accident year	One year later	Two years later	Three years later	Four years later	Five years later	Six years later	Seven years later	Eight years later	Nine years later	Current estimate of cumulative claims
2009	P 71,622	P 87,845	P 45,328	P 45,083	P 45,212	P 44,915	P 44,915	P 44,915	P 44,915	44,915
2010	89,344	76,323	73,932	74,011	73,870	73,880	74,511	74,411		74,411
2011	102,076	105,351	103,781	103,478	104,890	103,897	103,897			103,897
2012	127,121	112,736	107,528	107,129	107,045	107,045				107,045
2013	135,884	137,506	116,652	117,055	117,155					117,155
2014	138,028	101,537	104,150	104,078						104,078
2015	171,980	132,750	130,233							130,233
2016	167,464	188,026								188,026
2017	72,604									72,604
Total	P 72,604	P 188,026	P 130,233	P 104,078	P 117,155	P 107,045	P 103,897	P 74,411	P 44,915	942,364
Provision for IBNR	31,184	5,314	-							36,498
Cumulative payments to date	(68,401)	(110,469)	(123,989)	(101,221)	(116,157)	(107,045)	(103,792)	(74,271)	(44,915)	(850,260)
Liability recognized in the statement of financial position	P 35,387	P 82,871	P 6,244	P 2,857	P 998	P -	P 105	P 140	P -	P 128,602

23. Premiums

Analysis of premiums is as follows:

2018	**Direct Business**	**Assumed**	**Total**	**Ceded**	**Net premiums Retained**
Premiums written	**P 243,439,277**	**P 2,564,532**	**P 246,003,809**	**P 10,444,451**	**P 235,559,358**
Changes in unexpired risk	**8,104,478**	**472,759**	**8,577,237**	**(328,199)**	**8,905,436**
Net	**P 251,543,755**	**P 3,037,291**	**P 254,581,046**	**P 10,116,252**	**P 244,464,794**

2017	Direct Business	Assumed	Total	Ceded	Net premiums Retained
Premiums written	P 260,207,806	P 2,642,861	P 262,850,667	P 9,146,551	P 253,704,116
Changes in unexpired risk	22,931,982	1,652,661	24,584,643	2,169,566	22,415,077
Net	P 283,139,788	P 4,295,522	P 287,435,310	P 11,316,117	P 276,119,193

24. Interest and other investment income

Sources of interest income are as follows:

	2018	2017
Cash, cash equivalents (see *N*ote 8)	**P 2,314,248**	P 1,982,953
Other debt instruments *(see Note 9)*		
Available-for-sale debt securities	**3,452,684**	5,761,015
Held-to-maturity debt securities	**30,288,718**	22,991,968
	P 36,055,650	P 30,735,936

Other investment income consists of:

	2018	2017
Dividend income (*see Note 9*)	**P 9,663,296**	P 10,802,531
Rental income *(see Notes 12 and 13)*	**6,277,238**	6,114,291
Gain on foreign exchange	**5,821,347**	1,716,944
Realized gain on sale of		
Mark to market gain on FVPL investment (*see Note 9*)	**2,693,141**	1,348,045
Realized gain on sale of available-for-sale investments	**2,504,635**	3,348,825
Unrealized gain on fair value adjustment on investment property	**-**	24,946,936
Other income	**-**	12,909
	P 26,959,657	P 48,290,481

25. Claims, losses and adjustment expenses

Analysis of claims, losses and adjustment expenses paid is as follows:

	For the year ended December 31, 2018								
		Direct		Assumed		Total		Recoveries		Net
Claims and losses	**P**	**131,156,233**	**P**	**261,742**	**P**	**131,417,975**	**P**	**(1,319,358)**	**P**	**130,098,617**
Loss adjustment expenses		**619,957**		**-**		**619,957**		**-**		**619,957**
	P	**131,776,190**	**P**	**261,742**	**P**	**132,037,932**	**P**	**(1,319,358)**	**P**	**130,718,574**

	For the year ended December 31, 2017									
		Direct		Assumed		Total		Recoveries		Net
Claims and losses	P	116,769,552	P	729,431	P	117,498,983	P	(1,693,229)	P	115,805,754
Loss adjustment expenses		586,542		-		586,542		(47,493)		539,049
	P	117,356,094	P	729,431	P	118,085,525	P	(1,740,722)	P	116,344,803

26. Commission expense and Commission income

The composition of this account is as follows:

	2018				2017			
		Commision expense		**Commission income**		Commision expense		Commission income
Direct business	**P**	**58,279,085**	**P**	**-**	P	68,074,211	P	-
Reinsurance business		**591,667**		**3,198,167**		755,434		2,173,352
Total		**58,870,752**		**3,198,167**		68,829,645		2,173,352
Increase/(Decrease) in DAC/DCI *(see Note 14)*		**6,477,164**		**(741,160)**		3,724,741		739,781
	P	**65,347,916**	**P**	**2,457,007**	P	72,554,386	P	2,913,133

Standard commission rate for direct and reinsurance business ranges from 5% to 37.5%.

27. General and administrative expenses

General and administrative expenses consist of:

		2018		2017
Salaries and allowances	**P**	**33,282,921**	P	34,583,457
Other employee benefits		**3,865,900**		3,014,733
Depreciation *(See Notes 12 & 13)*		**3,331,498**		2,701,971
Taxes and licenses		**3,168,487**		2,799,870
Rental and other occupancy costs		**2,790,037**		2,702,955
Professional fees		**2,310,255**		2,450,189
Communication and postage		**1,912,415**		1,723,853
Transportation		**1,760,458**		2,177,075
Repairs and maintenance		**1,715,672**		1,798,272
Association and pool dues		**1,349,914**		1,209,954
Representation and entertainment		**1,222,190**		2,351,796
Supplies		**1,074,671**		1,170,321
Professional development		**612,699**		957,545
Advertising		**577,616**		805,852
Provision for impairment of financial asset		**-**		1,120,000
Miscellaneous		**2,914,116**		3,085,446
	P	**61,888,849**	P	64,653,289

The Company's miscellaneous expense in 2018 significantly represents donation to an accredited non-stock, nonprofit NGO and authentication fees while in 2017 it represents payment on labor dispute with a former employee of the Company and messengerial and janitorial services rendered to the Company.

28. Retirement benefit cost

The Company maintains a funded retirement plan, which is a defined contribution type, covering all regular employees. The Company periodically contributes to the plan at 5% of employees' monthly salary. After rendering a service of at least 10 years, the amount payable to the retiring employee is his/her contribution, net of administrative fees and expenses plus all income thereto. The plan is administered by a bank-trustee. At regular intervals, an actuarial valuation is made to determine if the retirement benefits due to the employee is not below the framework of Republic Act 7641, otherwise known as "*Retirement Pay Law*".

Contribution to the plan amounted to P1,210,868 in 2018 and P1,178,292 in 2017.

As at December 31, 2018 and 2017, the distribution of the provident plan is as follows:

	2018	2017
Equity securities	**52%**	50%
Debt securities	**46%**	48%
Cash and cash equivalents	**1%**	1%
Loans and receivables	**1%**	1%
	100%	100%

29. Income Taxes

The major components of provision for income tax for the years ended December 31, 2018 and 2017 are as follows:

		2018		2017
Current				
Regular	**P**	**13,263,385**	P	11,695,483
Final		**6,681,556**		5,212,759
Deferred		**1,903,279**		(11,275,619)
	P	**21,848,221**	P	5,632,623

The reconciliation of tax on pretax income computed at the applicable statutory rates to tax expense is as follows:

		2018		2017
Statutory income tax	**P**	**30,028,466**	P	26,903,790
Adjustments for:				
Income subject to lower tax rates		**2,194,854**		(12,014,344)
Non-taxable income		**(12,278,378)**		2,018,796
Effect of deferred income tax		**1,903,279**		(11,275,619)
Actual provision for income tax	**P**	**21,848,221**	P	5,632,623

Significant component of Company's deferred tax assets and liabilities recognized in the financial statements is as follows:

		2018		2017
Deferred tax assets				
Claims and losses incurred but not reported	**P**	**7,897,260**	P	10,737,457
Allowance for impairment of financial assets		**336,000**		336,000
Allowance for impairment of receivables		**198,734**		198,734
	P	**8,431,994**	P	11,272,191
Deferred tax liabilities				
Deferred acquisition cost - net	**P**	**5,981,758**	P	8,147,255
Unrealized foreign exchange gain		**1,740,364**		511,783
Unrealized gain on fair value change of investment property		**1,496,816**		1,496,816
Revaluation surplus on:				
Land and building		**28,163,638**		28,287,583
AFS		**780,588**		619,054
	P	**38,163,164**	P	39,062,491

The movements of deferred tax assets and liabilities are as follows:

	As of December 31, 2018							
			Changes taken to					
		Beginning		Profit and loss		Equity		Ending
Deferred tax assets	P	11,272,191	P	(2,840,197)	P	-	P	8,431,994
Deferred tax liabilities		(39,062,491)		936,917		(37,590)		(38,163,164)
	P	(27,790,300)	P	(1,903,280)	P	(37,590)	P	(29,731,170)

	As of December 31, 2017			
		Changes taken to		
	Beginning	Profit and loss	Equity	Ending
Deferred tax assets	P 198,734	P 11,073,457	P -	P 11,272,191
Deferred tax liabilities	(35,982,631)	202,164	(3,282,024)	(39,062,491)
	P (35,783,897)	P 11,275,621	P (3,282,024)	P (27,790,300)

30. Reconciliation of balances under Philippine Financial Reporting Standards (PFRS) and Regulatory Accounting Policies (RAP)

PFRS varies in certain respects from RAP prescribed by the Insurance Commission. In accordance with Section 203 of the Amended Insurance Code, the following items of assets are classified as Non-admitted assets:

- Intangible assets;
- Prepayments and deferred charges;
- Unsecured loans, advances and other receivables;
- Furniture, fixtures, equipment and the like; and
- Other assets of doubtful value

The reconciliation of balances and difference in measurement bases under PFRS and RAP is as follows:

(i) Statement of Financial Position

		2018	2017
Total assets under PFRS		**P 1,353,579,282**	P 1,362,218,349
Total liabilities under PFRS		**292,276,271**	351,976,429
Networth under PFRS		**1,061,303,011**	1,010,241,920
Less:	Non-admitted assets		
	Investments	**-**	-
	Premium receivable	**-**	-
	Other non-admitted assets	**4,355,212**	6,067,247
Add:	Non-ledger assets and liabilities		
	Cash and cash equivalents	**-**	-
	Losses recoverable from reinsurers	**-**	-
	Accrued investment income	**-**	-
	Premiums due to reinsurers	**-**	-
	Other liabilities	**-**	-
Networth under RAP		**P 1,056,947,799**	P 1,004,174,673

Net worth under RAP is broken down as follows:

	2018	2017
Total assets under RAP	**P 1,349,224,070**	P 1,356,151,102
Total liabilities under RAP	**292,276,271**	351,976,429
Networth under RAP	**P 1,056,947,799**	P 1,004,174,673

(ii) Statement of Income

		2018		2017
Net income under PFRS	**P**	**78,246,664**	P	84,046,677
Add(deduct): Difference in accounting policies for:				
Effect of foreign exchange		**5,821,347**		1,716,944
Effect of deferred tax		**(1,903,279)**		11,275,619
Net income under RAP	**P**	**82,164,732**	P	97,039,240

31. Supplementary Information required under Revenue Regulation 15-2010

The Bureau of Internal Revenue (BIR) issued Revenue Regulation 15-2010 which requires additional tax information to be disclosed in the Notes to Financial Statements. The following information covering the calendar year ended December 31, 2018 is presented in compliance thereto.

- The details of VAT output tax declared in the Company's 2018 VAT returns and their related accounts are as follows:

		Amount subject to VAT		Output tax
Premiums	P	226,308,136	P	27,156,976
Commission		2,631,943		315,833
Rental income		6,277,238		753,269
	P	235,217,317	P	28,226,078

- The VAT input tax claimed is broken down as follows:

Balance at the beginnning of the year	P	-
Current year' domestic purchases/payments for:		
Goods		1,523,326
Services		5,088,538
Applied against output tax		(6,611,864)
	P	-

- The premium tax on personal accident insurance paid and accrued amounted to P28,789.

- The documentary stamp tax paid/accrued for insurance policies is P29,200,000.

- The amounts of withholding tax payments, by category are as follows:

Tax on compensation and benefits	P	1,262,714
Expanded withholding tax		1,432,357
Tax on fringe benefits		174,690

- As at December 31, 2018 the Company has no pending tax cases within and outside the administration of the BIR.

- The details of taxes and licenses presented under administrative expenses in the Company's statements of income are as follows:

Local business taxes	P	1,781,562
Real estate tax		571,949
Fringe benefit tax		174,690
Community tax certificate		10,500
Others		629,786
	P	3,168,487

32. Other significant matters

Contingencies
In the normal course of business, the Company may become defendant in lawsuits involving settlement of insurance claims. The Company recognized adequate provisions in its books to cover possible losses that may be incurred on these claims. In the opinion of management, liabilities arising from these claims, if any, will not have material effect on the Company's financial position and will have no material impact in the financial statements, taken as a whole.

Operating leases
Company as lessor
Portion of the companies provincial branches are leased out to third parties. Future minimum rentals receivable under the operating leases as at December 31, 2018 and 2017 are as follows:

		2018		2017
Within one year	**P**	**6,190,974**	P	3,661,476
More than one year but less than five years		**14,597,669**		13,020,637
	P	**20,788,643**	P	16,682,113

Company as a lessee
The company enters into a rent agreement for the lease of certain provincial branches. Lease contract covers a period of 1 year, renewable at the option of both parties. Rent expense charged to operations amounted to P400,054 in 2018 and P381,446 in 2017.

Related party transactions
Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The related party transactions are recognized based on transfer of resources or obligations between related parties, regardless of whether a price is charged.

Related party transaction consists of compensation to key management personnel as follows:

		2018		2017
Compesation and benefits	**P**	**7,558,349**	P	7,204,041
Retirement benefits		**376,898**		359,230
	P	**7,935,247**	P	7,563,271

Current and non-current distinction
The Company's current assets and current liabilities are presented below:

	2018	2017
Current assets		
Cash and cash equivalents	**P 50,810,544**	P 75,900,104
Short-term investments	**P 78,718,502**	P 86,378,147
Financial assets	**49,872,441**	12,016,277
Insurance and reinsurance assets	**12,801,856**	16,039,006
Accrued investment income	**7,016,023**	7,133,420
Deferred acquisition costs	**21,575,742**	28,052,906
	P 220,795,108	P 225,519,860
Current liabilities		
Accounts payable and accrued expenses	**P 66,476,059**	P 71,801,278
Reinsurance liabilities	**7,209,078**	4,623,687
Insurance claims payable	**80,804,754**	129,029,680
Reserve for unearned premiums	**97,986,666**	106,563,903
Deferred commission income	**1,636,550**	895,390
	P 254,113,107	P 312,913,938